

TRANSCRIPT OF APPG ON SHALE GAS REGULATION & PLANNING
WEDNESDAY 7TH SEPTEMBER 2016

Kevin Hollinrake

Welcome to our latest meeting on shale gas regulation and planning. Before we kick off with today's session just some formalities from the last meeting. We've had a number of apologies for absence.

Our first job is to read the minutes from the meeting of 7th June which are on the website and have been circulated as well.

Our session today is on community compensation. My name is Kevin Hollinrake, Member of Parliament for Thirsk and Malton – I am also chair of this group – the All Party Parliamentary Group for Shale Gas Regulation and Planning. Our group is not really about a debate on whether we should or shouldn't explore shale gas – it is government policy – it's a national policy; it's really about the impacts, looking at the policies that we might put in place to make sure any effects on communities and effects on the environment are mitigated... What we intend to do is to produce a report – this is the latest in a series of meetings we have had – evidence sessions – and we intend to produce a report probably in the early part of next year which hopefully will inform the debate. So this is the latest in the series of sessions.

This is on community compensation. We have had a number of people contact us to say they didn't feel that the communities were adequately represented. I think most of those related to impact; we are having another session on 8th November which looks at impacts as well – concerns of communities which I know will be talked about today as well. This is really about if this is going to happen then what should we do to help local communities – what financial compensation should there be – where that should be allocated. That's the real essence of this. We are making an assumption here, which some people would say is a bold assumption, that there will be no impact of course. Some people are concerned about water contamination, air pollution, seismicity – these kind of things. If there is money going to be allocated to communities, where this should be allocated. There is a government consultation taking place as well – on what they previously talked about – a Sovereign Wealth Fund from shale so I would urge people to submit representations to that consultation too. I think that consultation expires on 25th October so please make your representations through to government as well.

In terms of our first panel – we have representations from Frack Free Ryedale – Bishop Graham Cray; UK Communities Foundations – I am sure Fabian French will explain what they do; David Gill - Northern Gas Networks; Ken Cronin from UKOOG.

Bishop Graham Cray

My question is how you can assess compensation if you have not first assessed the impact.

Kevin

As I said this will form part of an overall report – it does not have to be sequential – the report will be balanced. It's a cross party, all parliamentary group – of course it needs to be constitutionally – so there are some people within the group who are in favour of shale gas exploration and some who are against. So I'm sure it will be a balanced report.

In terms of community compensation I will start with Reverend Cray. In terms of compensation, in terms of the impact you feel may affect communities – where do you see that any compensation should be most appropriately focused?

Bishop Cray

I live in Main Street, Kirby Misperton – half a mile from the first approved site. The 910 HGV movements and 504 vehicle movements for one frack will go past my front door and the noise is not meant to be louder than a nightclub, so I am part of Frack Free Ryedale but I regard myself much more as a representative of my local community. It's a good day that you ask me that question – because of the publicity about the forthcoming judicial review – there was a reporter in our village from The Times today – and I heard three of my neighbours, without me asking the question, say they wouldn't have fracking at any price. So the view in the community as expressed in Ryedale by the parish councils, the town councils, the district council, our county councillor and our former MP is that this is imposed upon us; that the levels of risk to economy, to health and to our infrastructure are such that compensation is fundamentally out of the question, particularly the £10,000 issue. We have no vicar at the moment – my wife and I are taking the services for four different churches, taking all the baptisms, weddings and funerals; a young couple wanted to buy a house in our village – a nice modern house – until the bride's father said “don't touch it with a barge pole” (a local farmer) “you'll never sell it”. So if we're talking about compensation we're talking about house prices, loss of jobs in the tourist industry, significant threats to public health and some damage which money cannot compensate for, so that's their primary view. I know of no one in my village or the surrounding villages that supports or welcomes this.

Kevin

I take it following your comments, you don't want to comment on where compensation should be allocated?

Bishop Cray

What I would propose is, if this is imposed upon us by national government that there should be a substantial bond posted for every individual community that might be affected and evaluated against the damage of that community. I am an honorary Assistant Bishop in the Diocese of York; the most recent round of exploration licences issued that touch on York diocese covers in excess of 200 communities. Our resistance to the idea of compensation is because what is about to happen to my village is multiplied about 200 times and therefore we are talking about potential very significant damage long term and I think there should be a bond in advance for every community so threatened.

Kevin

So you think it should come as a kind of bond rather than going to the community?

Bishop Cray

I think the bond should be for each individual village and community. The moment you set us against ourselves saying ‘which village gets this which village gets that’ when it's the total impact on infrastructure, jobs etc. not the inconvenience of a certain amount of lorries over a certain number of weeks that counts.

Ken Cronin - UKOOG

I think the first thing to say is that word ‘compensation’. We put forward a scheme in 2013 which the entire industry supported, which was to provide communities with two payments at separate times of development. So in the exploration phase, which is the phase we are in now, we have proposed a £100,000 per site that involves hydraulic fracturing and then when we get to a production phase we have proposed 1% of our revenues goes to communities. We fundamentally believe that it's duty of ours to ensure that communities benefit from our operations. We recognise that shale gas does not exist everywhere – it exists in certain places. Today we import 50% of our gas – in fifteen years that goes up to 80% - so from a national point of view we need to be able to provide benefits to communities that host our sites because they're hosting it on behalf of everyone in the country.

I also think that this is not unusual for our industry in totality in terms of energy. The wind industry, the nuclear industry, all have these types of schemes. Again, for very similar reasons, there are certain places in the country that are windier than others. There are certain places in the country that already host nuclear power stations, so again I think that works very well in that context. We have a fundamental principle in our work - that the community needs to decide how to spend the money. Our expertise is in drilling wells, it's not in community benefits and so there were a number of questions that we had and lots of people had and that's the reason why we have set up pilot schemes in various parts of the country to answer those questions through experience. We have brought a recognised body that has experience in community benefits, which is UK Community Foundations, to help us and the local communities to answer those questions and work out what the best way of governing the system is and how best to distribute the money into communities. I think at that point I'll stop.

Kevin

Fabian French – I think you're one of the organisations that actually might distribute this money to communities - have you any comments on what you've heard so far ?

Fabian French

I am the Chief Executive of UK Community Foundations – that's a post I have held for eighteen months. UK Community Foundations is the membership body for the UK's 46 accredited community foundations and each of those 46 community foundations is an independent registered charity in its own right. Each has a specific geographic focus. The purpose of a community foundation – so the purpose of our 46 members – is to make grants and to provide advice to local grass roots charities and voluntary organisations – across the UK and we cover every postcode in the UK through our members. To give you an idea of our scale as an organisation, as a network – in 2015 the network made grants of £70m across the UK to over 21,000 charities which makes us one of the very largest grant giving organisations in the UK.

In terms of community benefit funds, we currently – or our members to be more accurate – administer over 70 community benefit funds and the grants in communities from those community benefit funds total in excess of £70m. So we have a great deal of experience of running community benefit funds in the context of wind energy, solar power and other similar things. In terms of my response to what I have heard so far, it is not for Community Foundations or me as the leader of their membership body to take a view that's pro fracking or against fracking. Our role is to ensure that if money becomes available and is given by the operator or whoever it may be, that that money is spent in the best possible way for the benefit of the community that is defined.

Kevin

How would you determine that ? How would you decide where this money should be allocated if you're going to be responsible ?

Fabian French

So how do we decide where the money should be distributed to ? In the case of the 70 community benefit funds we have had so far, we've set up a transparent, robust and independent process to define the community and to decide how it should be spent. The principle component in that is to draw together a panel made up of local residents who then receive applications – they're supported by the Community Foundation in question, so in the case of the Kirby Misperton project it would be the Two Ridings Community Foundation. They select the panel, they support the panel, they provide secretariat to the panel, but it's the panel that decides in every case how the money should be spent. So they will determine the quality of the applications for community benefit activities.

4.

What we do is ensure that the money that is available through that panel is spent to the best possible advantage in terms of social benefit to the community.

Kevin

David Gill from Northern Gas Networks. We spoke about a very interesting idea you had in terms of distributing gas within the community. Perhaps you could explain a little bit more how that might possibly work.

David Gill

Northern Gas Networks is the gas distribution operator in the North East. What we have done more recently, given that shale has been talked about and Northern Gas Networks is agnostic to that with no view positive or negative on it. But if shale is going to be produced somewhere then it was incumbent upon us to really think about the best way to get that gas either into the national transmission system or into the gas mains if that's at all possible. So we've set a small team up just recently and we want to work closely with 3rd Energy and the other...on this with a small team to look at the number of scenarios – how we can potentially get that gas into the network and it's not beyond the realms of possibility. There's a lot of challenges around this, not just regulatory, commercial as well, on how we get the gas into the grid. But gas at a third of the price, when you talk about heat, of electricity. Rural areas are generally heated either by oil or coal or by electricity; rural areas have a high proportion of customers, of people living in fuel poverty and in idea, which we are pushing into this mix, is to say well what would it look like if we put a local network into this, as an idea and when that came back from the national transmission system how that worked. We need to look at all those, but that's an option. Potentially it may not be an option at the end of the day but it would be remiss of us not to look at that and say could we put something back into the local community, potential gas local distribution system – however that may look like and that's what we are looking at now. In probably the next two to three months we'll have some form of answers to that.

Kevin

Questions from members first.

Lord Truscott

A couple of questions. Mr. Cronin talked about the community compensation and referred to hosting of sites and referred to the nuclear industry. There's been quite a history of that when you look at Sellafield and Cumbria and the search over a number of decades really for a deep, underground repository for nuclear waste. The search has gone on for decades and they still haven't yet found a community willing to host such a site and I wondered whether we could see the same with shale – communities being approached but yet rejecting any compensation – that's just one question.

5.

Reverend Cray mentioned, I believe – he was talking about 200 villages requiring compensation so maybe having some sort of bond, so arguably there could be rejection from those communities or we could be talking about a very substantial amount of money.

My second question is just coming back to what Mr. Gill talking about, local providers and that's quite interesting because Jeremy Corbyn has just come out with an idea of having a thousand local cooperatives providing energy and I just wondered whether Mr. Gill wanted to comment on that proposal ?

Bishop Cray

I understand the thought, if it's practical of a community benefiting from gas that's provided gas. I'm fairly certain I know what the reaction in my village would be and I'm much more comfortable speaking from my village than I am from Frack Free Ryedale generally because, please understand, we are a collection of groups from villages impacted on this who have networked together because we face the same issues. I think most of my neighbours would say, if this happens we're paying a very high price for it just by it happening where we are and this doesn't look like a very great deal of compensation. It's not a bad idea, please I do understand that there's some logic behind it, but we do like the word compensation because we think the word compensation acknowledges harm and the view on the ground is fracking does harm and therefore compensation is a language we will acknowledge if we can't stop it. But if we get to the point of compensation then it's because the harm is being done. You must understand I'm not just speaking for myself – knock on the doors in my village, in Little Barugh, Great Barugh, Little Habton, Great Habton and now it multiplies through six companies' exploration licences as the villages wake up to what's happening.

Kevin Barron

Kevin Barron – Member of Parliament for Rother Valley which is an ex coal mining constituency in South Yorkshire and I've got several licences being applied for. I've had discussions with Centric ?? particularly, they're the potential interaction between fracking and what was deep mining coal. I have to say I've come here not committed for or against to ask what I believe to be the relative question in terms of my constituents – if it comes or not. I think it was Ken who talked about there being two sorts of payments and one would be on development – and on production – I think you said 1%. I don't know what these estimates are. The only thing that I'm seeing, which is unfortunate, is what the current Prime Minister is saying. I may not be on the same side as her but we'd better get the information from the industry, even if it's guesstimation as opposed to actual fact – other than picking it up in the media that we are doing at the moment. First of all do you have a figure on the production side. There's been major development in my constituency, particularly since the run-down of the coal industry and quite a lot of it has benefited from the Section 106. The council have been able to develop what they want to develop and effectively putting money in what's supposed to be coming to the communities actually replacing, for want of a better word, public expenditure.I'm concerned... that if any compensation does come – first of all is it going to be a situation where it's going to replace current public expenditure?

Ken Cronin

I think first of all we need to take the community benefit system that the industry has in context of everything else. So we as an industry will pay business rates directly to the local council. We estimate that could be somewhere between 2% and 3% of our revenue. That goes directly to the council and they can do with it as they see fit. Our community benefit scheme, as I explained – two separate payments for two separate parts of the process – that will go to the community and as Mr. French has already explained, a community panel will be set up and the community will decide how to spend it, so there will be no interference from anyone else. One of the principles of the UKOOG is that the operator – his/her role is to provide the money and that's it. So again that's from a community point of view.

We will also pay a substantial tax revenue, so our tax percentage is almost twice what the corporate taxation rate is in the UK at the moment and that's what will provide the revenue into the shale gas wealth fund that the Prime Minister is talking about and is open to consultation at the moment. So I think all of that together needs to be brought into context.

In terms of Section 106s etc., what we are doing is completely separate from Section 106. The idea of the community benefit scheme that we've put in place is not even allowed to be discussed at the planning meeting because it's not a material consideration, whereas Section 106 is – so completely separate from the planning system and the regulations etc. I think the last thing to say is to go back to this word 'compensation'. We are providing funds to communities for them to benefit from hosting our sites – not to compensate them for anything but to almost say thank you on behalf of everyone else for providing those sites to produce gas for this country.

Kevin Barron

Obviously you've got 70 community organisations now – what width do they have in terms of being able to decide where the money goes? We have an organisation that used to be publicly funded and now lives on its called the Coalfield Regeneration Trust that's done some wonderful work in areas like mine in supporting the community both in terms of development at local level and also community groups as well and it's well recognised that that's been because of the run-down of jobs and everything else because of the closure of the coal industry. Could he see using organisations like that if there was a situation where money was going into the community and not going to the local authority?

Ken Cronin

The decision will be taken by the community panel as I've described before, so I can't judge what they would consider to be the right beneficiaries but the criteria that they would deploy would be what delivers community benefit and they will make grants of amounts of money - between £200 or £10,000 is probably the range – to organisations which provide demonstrable community benefit. So based on what I've heard you say yes, that entity could well be a recipient or that type of entity could well be a recipient of a grant.

Julian Sturdy

Just on what the other Kevin said - the definition of communities is going to be absolutely key in this and how wide that area goes. Are we talking about parished areas or is that going to be wider, or is it just a tight area around a built-up community. Have we got any definition or any thoughts on that?

Ken Cronin

It will vary from place to place. It will be the local demographics which determine the definition of community. I have thought about it and struggled to come up with a specific definition of community that works in all cases. There would be a different definition in urban shale gas fracturing than there would be in a rural one for example. That's exactly why we are doing the pilots which will allow us, in the different sites where the pilots take place, to work out what the correct definition of community is from place to place.

Bishop Cray

Our villages are quite close to one another – it's one of the big differences I saw when I visited to Pennsylvania. Ineos have publicly said they want up to 30 wells in each of their 10x10k exploratory areas and they've got 9 and lots of bits so it's the equivalent of 10. So you're talking about up to 300 wells in the area covered by one of six firms. If the initial payment is per well, as I think Mr. Cronin has just said, you start to get the sort of scale of that and I think there also are serious questions about identifying which is the local community which is the boundary of the local community. It might be parish council areas but they are erratic really in a sense.

Fabian French

We have been discussing payment to communities but I understand the Government is at least floating the idea of direct payments to individuals primarily affected. I don't know what the panel thinks about that but of course that's the US model, where effectively they make payments to the landowners and that has been seen to aid the development of shale for example, because there has been a direct financial interest for people to accept those payments.

Bishop Cray

One of the concerns I have from inevitably the studies we've done on the impact of this in other parts of the world, is that it ends up dividing communities. Now there is one factor that's difference here, as you know, that we don't own what's under our land whereas in America they do and therefore there's a big divide between those who will lease and those who will not. But where do you draw the circle? You'll have people who on conscience grounds believe they should not because they treat it effectively as a bribe – sorry to use that word but it's been used in my village. If you draw a circle round, what do you do with the person who's just outside and their neighbour is just in? The actual potential impact dividing communities is I think very substantial and therefore the response about individual payments has largely been trivial compared with what happens to the value of their houses and the saleability of their houses the nearer we are to a well and they are potentially divisive of communities, because somewhere geographically you've got to draw a line and that might not effectively be where the coherent boundary falls.

Fabian French

Individual payments is not the normal business of community foundations. We make grants to organisations which can be small voluntary groups or 3,4 or 5 people which have a purpose which is to create a community benefit. I'm not an expert on that area – that's not an area I know a great deal about, but I do sympathise with the Bishop's point that he could very well be divisive because some people will receive payments who would need money, others who don't and it's very geographically arbitrary.

Ken Cronin

I think it's a really interesting question Lord Truscott, and I would be really interested in the responses that the consultation comes up with. I think talking to lots and lots of people when we were setting up our scheme, I think there's a lot of divide about direct payments etc. and that was one of the reasons we decided to go down the community route for the 1%. I think the Bishop is absolutely right – the definition of community is really, really important. We looked and loads and loads of schemes about landfill, windfarms etc. etc. and we weren't really convinced that any of them had got the definition right and that's the reason why we want to do the pilot to aid that and also bring in some expertise of people that have done this before etc. We will wait for that pilot research to come out before coming up with the protocol about how to define communities, because we do think that's really, really important. I think people like the Bishop will have a very important part to play in that discussion as it goes on.

I do want to bring up just one point – the Bishop has mentioned it a couple of times now – which is the value of homes and tourism and things. This was very much the same thing that was said unfortunately about the wind industry as well and that's been proven to be wrong and I just wanted to make that point.

Bishop Cray

It's not the view of the main tourist firms in North Yorkshire.

Kevin

Can I just ask – you’ve said it a couple of times Mr. Cronin – that compensation is the wrong word to use – but whatever you would say about this – and obviously a lot of us have looked at this in depth – there is no question there is impact on communities in terms of things like traffic, for example. It cannot be done without some impact whether there is a net benefit over that in terms of monies that might come into the community.. Is it unwise to say this isn’t some kind of compensation, to reject that and just talk about – let’s be honest with people.

Ken Cronin

I think we’ve always been honest that a part of our activity involves construction, as you would find with homes, windfarms, nuclear power stations, transport etc. – it involves construction and construction does involve an element of noise, transport etc. and all of that actually is taken into consideration during the planning part of the regulatory system that we are involved in. And so the views of the local people are taken on board by the local planning authorities etc. So therefore we believe that hosting those sites is something that the communities should directly benefit from and that involves our community benefit scheme. It should also involve the creation of local jobs and as well as schemes like Northern Gas Networks as well, so it’s much, much wider than just mere compensation for something happening.

Kevin

To follow on a question Kevin asked earlier in terms of - you refer to as Section 106 – which is in laymen’s terms through the planning process a commitment for a development to contribute to some road repairs for example – that was Kevin’s point about repairing roads. That’s another big concern – these big trucks heading down these often smaller A roads or B roads – there’s going to be some impact on those roads – who’s going to pay for that ?

Ken Cronin

Again I think that’s very, very clear in terms of the regulatory process – that is discussed by the mineral planning authority at each local council, as it would be with any construction activity, so therefore it is covered as a part of that.

Kevin

So you’d be comfortable if a planning authority says we need £1m off you to repair these roads which have been damaged. If that’s a reasonable assessment – but you would be comfortable that’s part of the process ?

Ken Cronin

That is part of the planning process.

Bishop Cray

I believe there’s one issue that we’re actually missing here – the concern I have with compensation so far I partly contributed to myself because I represent the most affected village in the north east of England at the moment. It is cumulative scale. If the one thing that has been approved for my village with a well ready drilled is 1400 vehicle movements, if the intention of one company is 300 odd well sites – if there are six companies – if a very large part of North Yorkshire is covered by this, there’s an extremely big issue of cumulative scale. We believe we will lose tourism jobs overall rather than gain gas jobs for instance. So you put the multipliers in here – and I repeat 1400 vehicles for one frack with the well already drilled – and the impact on our part of the world, whose wellbeing is based on tourism, beauty, agriculture is absolutely vast.

I don't want this cut down to a piecemeal thing where you work out what is attended to each village – I would like some serious attention and that's why compensation is the only word that's acceptable to us about the overall impact on our district, on our county etc.

Kevin

Can I just reiterate – that's why we have formed this group. Can I ask you a question, Reverend Cray. You live in Kirby Misperton and have done for quite a number of years. You live near an existing site – a convention well. During that time have you experienced any drilling activity on that site ?

Bishop Cray

The one event that happened – we were only there part-time because I was a full-time working bishop then and lived in Kent, therefore we would be coming up to our house once a month – was the drilling of the well in 2013 by Third Energy.

Kevin

Did you complain about that – was there any complaint you made to the local authority ?

Bishop Cray

I didn't because I heard about it afterwards. The lady most affected gave her evidence at the planning application in Northallerton. Another member of the community, just where the main street bends, complained very forcefully to me about the scale of the traffic. I was primarily down in Kent at the time so I'm hearing what my neighbours told me. It was noise, light and traffic – those were the three primary issues.

Kevin

Do you know how many complaints there were actually from the village of Kirby Misperton ?

Bishop Cary

I don't. I do know that the lady most affected had a most difficult relationship with the drilling company.

Kevin

And how far is her house from the site ?

Bishop Cray

A little bit nearer than mine and three storeys, so that she could actually see the well site from the top storey. She couldn't sleep. It's less than half a mile – the house is actually marked on one of the maps I've seen from one of the Third Energy public submissions. I would guess about a third of a mile.

Kevin

I would be very interested to know how many complaints there *were* in the community. I haven't had anyone tell me they complained at the time (not the MP at that time). That's true but nobody's come back to me after and said we complained about the last ..

Bishop Cray

I think the feeling in the village was initially fatalistic – you can't do anything about this. The one lady who complained actually did complain on behalf of her neighbours. She couldn't open her windows – it was very hot – she couldn't sleep through the night. The firm sent her a fan – she wasn't impressed. She's had various conversations with Mr. Dewar since and still isn't impressed. Most of the village just thought 'them in London do this to us'. Increasingly we're deciding we just can't put up with it.

Questions**Nick Grilling**

I'm one of the owners of the resource and 65m people who own this resource, even though I live 350 miles away. I'm not entirely sure, because we're obviously about to drill, of what kind of resource there is in the United Kingdom, but a reasonable one would be several billion litres per year. I just wonder – the benefits to the Treasury could be several hundred millions of pounds per year ... Why do you think that you should prevent everybody else from getting the benefit ?

Bisoph Cray

My reply would be that firstly, today I was asked to come and talk about community compensation, not the bigger reasons why we think this is actually bad for our nation and I must stay off that, but there are considerable.. including about levels of methane and greenhouses and various other things. Part of the industry in some parts of the world has an expression called a sacrifice. As a faith leader I have to face the issue – what level of local sacrifice is actually worth it for the national good ? The question then comes, what is the scale of the national good ? We have very strict limits about how much we may produce. Let me just simply say one thing. When we address the local impact we get called nimbys. When we say there is a national here about climate change, about methane emissions, about our national energy policy, I think we very seriously question how profitable some of these firms are then we're told it's irrelevant because we're meant to talk about the local community.

Hannah Martin

I have a question for UKOOG. You mention that part of the economic reasons for developing our shale gas capacity is around the revenues it will provide to the Treasury which then can be used as part of the shale gas wealth fund, if I'm correct. Given that last year it was revealed that 40% of existing oil and gas exploration licences had been awarded to exploration partnerships, in which one or more company is owned offshore. How can you ensure that the Treasury will in fact reap the supposed rewards ?

Ken Cronin

It's very, very simple. The taxation system in this country creates a ring fence around UK profits for oil and gas companies and so all oil and gas companies have to pay taxation in that ring fence.

Kevin

Thank you to the first panel for your comments. We move onto our second panel now – some of the producers, all of which have exploration licences in my constituency. Gentlemen would you introduce yourselves.

David Robottom

I am Chief Financial Officer of Third Energy operating as you've heard in North Yorkshire.

John Blaymires

I am the Chief Operating Officer for Igas and we operate in the East Midlands, in the North West and also in the Weal.

Tom Pickering

I am Operations Director for Ineos Shale. We have a wider business in the UK – around 4,500 employees and a chemical manufacturing business based in the north.

Kevin

As we've heard there are two potential schemes here that may raise money for communities or for regions involved in this exploration. In terms of uses expected - £100,000 per exploratory well I think, 1% of revenues from the gas that emanates from those wells. Is that enough is my first question ?

David Robottom

I would like to clear up one slight misapprehension that there may be between £100,000 or more.. The £100,000 is for per site and it's for exploration – the exploration phase. It's extremely unlikely – we would be very happy if it happens – but it is extremely unlikely that we will have substantial revenues from the exploration wells. The 1% of revenue is when the development phase actually kicks in. Also I would like to clarify that that is being discussed with HMRC but it's essentially of gross revenue.

As far as your question goes – is it enough ? As Ken has said these are pilot projects and we have really got to get to the stage that we have proven that there is a resource which can be developed commercially, economically. So personally I feel that is premature to talk about what would be the percentage. 1% is what is being discussed currently – it's really for Ken to describe where the industry is on that. But we as Third Energy are happy to sign up to whatever industry plan there is put in place by the industry as a whole.

John Blaymires

We are of a similar opinion. We as an industry have come up with this proposal in terms of trying to provide a way of providing those communities with some benefit because of our presence within those communities. You've got to bear in mind the whole package – you need to go back to the fact there is the tax revenues going to HMRC, there's the business rates that go to the local councils and then there's the community benefit going directly to the relevant communities, which we've already discussed the issues about precisely how you define that. To give you an example; we within Igas have run a community fund. We operate 30 fields in the north of England and in the south of England, we have over 100 sites so we are embedded in the communities. Our staff work within those communities and we have been running a community fund – very much along the lines that Mr. French described – we have an independent panel, we ask for submissions from the local communities for various projects and we assess those – this is for conventional oil and gas. So we've got a long history of doing this. We've been operating these fields for something like 30/40 years so there is a long history there and the shale gas community fund was looked upon to try and enshrine it so there was a consistent approach across all the operators and reflecting some of the concerns that had been raised and trying to ensure that those communities .. There is always danger – and I say this slightly advisedly within these hallowed halls – the danger is of course taxes go into HMRC but they don't necessarily always find their way back to the communities in which the activities that generated that revenue occur, so this was an attempt to try to at least ensure that those communities that are subject to the disruption – which we acknowledge there is some but it's comparable to all sorts of other industrial activity that may go on and that includes frankly farms and agricultural traffic that also goes through the villages to be fair. So this was an attempt to try to address that and to try and find a way of directly benefiting those communities in which we operate.

Tom Pickering

The first point Mr. Chairman that I would make is that there are two elements to this: there's compensation and there's contribution. And if history's a good guide to that the coal industry's a good guide, which is the compensation is taken care of within the Petroleum Act and within the statute – i.e. the polluter pays and companies have means to be taken to task and they can cover themselves with insurance and there is means to compensate loss. The other piece that is comparable with the coal authority is that contribution element. So if you look at the types of communities that we are consulting within, often they have a long history of the coal mining activity and you can see miners' social clubs, you can see elements of the contributions that those mines made to those communities during their industrial life. And that's the type of contribution that we are describing making – that contribution for disturbance.

In terms of the engagement on the ground, we find in the particular area that's being talked about in Kirby Misperton, we're seeing about 48% of those we survey in support through indications by questionnaire; we're seeing roughly 15%-20% indicate that they're neutral and they remain to be convinced on the back of the science and the good conduct and behaviour on the ground. So from our perspective the offers that Ineos has made is probably quite different from the rest of industry. The offer we've made publicly over the last two years is that we would make 6% contribution from gross revenue, 4% of that to the landowners mapped above the area of gas extraction and 2% to the community. Looking at the wider pedal, that contribution would be made within the wider ordinance block.

Kevin

So in terms of damage to the landowners – are you going basically send a cheque to everybody who's got a house in those areas of exploration, is that what you're saying ?

Tom Pickering

It is possible the registry of land – you can map the title that is there and we're required under the planning system to submit exactly where the travel of a horizontal well bore is. And when you look at the American system – compensating landowners out there – that system is well understood – they are able to map the multitude of ownership at surface and divide the hydrocarbon amongst that ownership. So from our perspective it is about putting in place the title and means by which people know that that is offer. Obviously where you're doing the deal with the landowner it's much easier – that would be part of the land deal. For those in the community – houses or whatever – contacting us and making their claim will be part of that we envisage. In consultation with communities they should be defined how they want this money to be properly used ..

Kevin

So that situation is not set in tablets of stone. That raises the possibility that if a horizontal well went off on this way – and the traffic might be the biggest issue in terms of the negative experiences that people might have.

Tom Pickering

In terms of the drainage yes, but I think you have to look at the extent, so when we describe what we think, looking at analogists US geology, how a development might play out in a success case bearing in mind we don't know because those early signs will tell us, but we just make some assumptions you would be looking at 10 wells on each site, around that number, with wells going out in multiple directions and bearing in mind that shale is not a discreet or a distinct pocket of resource, but rather an analogist play of reservoir, it would be fair to say that over the life of that development, that people would benefit quite widely across those pedals. You can see that's played out in the US.

Kevin

The question I guess for Third Energy is – if Ineos can afford to pay 6% why can't other operators?

David Robottom

What I said in answer to your first question is that we would feed into line with any industry scheme and that is our position.

Ken Cronin

We are of a similar opinion. As we've said we've devised an approach which is going to pilot tested. We touched upon the whole issue – you've raised a very good point in terms of an example and you've got to look at all of those sorts of aspects and you've also got to be very carefully about introducing divisive elements into the whole consideration and there is a risk of doing that. One can't necessarily apply what went on in America to what happens here in the UK – it's a different set of circumstances. That's why we believe the right way forward is to pilot test and develop a scheme based on those pilot tests and using that expertise to do that.

Kevin

I don't disagree with that point in terms of where it's fair to allocate the revenue. So think it's perfectly acceptable .. If you're going to make communities feel that this is something that they would feel is a benefit to the local community – clearly 6% is a lot more than 1%. In terms of getting people comfortable with this is a challenge, there's no question about it. To simply say we'll look at it later – is that the wrong way round?

Ken Cronin

You've also got to look at that in the round in terms of tax revenues, the business rates and the community benefit piece of it. I think what we're saying as an industry is we want to pilot test this – let's establish and get some rules that are fair. That's the key thing here, otherwise – and Reverend Cray drew it up – you can end up in a situation where you have this divisive element going on because somebody's getting something here, someone else isn't. That actually happened in America as well. So the point is that 6% figure – you can cut that in a number of different ways. At the moment when you look at business rates, community benefits etc. the total figure that the industry is putting into the pot is substantially larger.

Lord Truscott

Before we start giving up the money we've got to know how much we are talking about – 1% of what would be my question. I'm glad we've got the companies here because I think, as someone said, first of all you need to prove the resources before you even start then you need to develop the fields and then you get an idea of the potential scale and since we have the companies here I wondered whether they could give an indication, because how many wells are we talking about here ? I think one of the panel said that we're talking about 10 wells per site. But it is a fact with shale gas that it's well known that after about eighteen months production starts falling so you need a new well. We need to continually develop field and invest in new wells and all the rest. There's been a lot of talk about, for example, the Bowland shale formation. Now if that was to reach its full potential what would be the sort of revenues that the Government could expect – the revenues that the communities could expect ? How many wells are we talking about ? What sort of impact on communities ? Do you have a master plan ?

Tom Pickering

I will answer your question from the Ineos perspective. We are not in the Bowland shale but I can give you a view based on our geologists trying to look at analogs and geology, bearing in mind this early science will give us production chemistry composition – is it just dry gas methane or are there additional elements of value like ethane, propane, butane that might be contributed in the mix. This is based on seeing some ethane present, so there is a dual value in that assumption. And it also picks up a gas price per therm of 58p per therm, so you can take a judgement on today's gas price about what might come in the future. But if we said that we had 8 pads in a 10x10 block and within that we had 160 wells spread between those, then we would be looking at a total community benefit within that 10x10 block of £222m. If we added business rates at an additional 2%, which goes directly to the local authority, that takes the sum to £297m – that's over the life of a well – you would expect we think around 15 years is the mid-case for a shale well, but you would expect that revenue to be front loaded so you would expect to see the very early peak production in the first two years of that well, with it dropping quite rapidly to a plateau.

Kevin

So 10x10 – 8 well pads. Reverend Cray earlier pointed to a figure he'd seen, which I've seen as well, that is 30 well pads in a single area. What is the likely number of well pads in a 10x10 area ?

Tom Pickering

Again you've got two aspects to that. One – the surface durability, so you have the element of urbanisation that has to be taken out – you're not going to be able to work equipment – you have other parameters around which you can work within the planning system that guides that. You have environmental designations that require stand-off; you have water courses – so you deduct those in your mind because then you're looking to where you can place those sites at surface. So if I said to you that the figure I know you have for that area- 2 sites per each 11.5sq km area, so up to around 20 sites in total are possible before you take away the durability, you take away those areas that you simply can't access and I think we described to you that would take away probably up to 50% on average when you take away those surface constraints which takes you down to between 8-10 sites. Bearing in mind that this is a model in me giving you the types of numbers and assumptions that get to that number.

Lord Truscott

What is the sort of scale that you're envisaging nationally ?

John Blaymires

The issue at the moment and I'll take you back to your comments which are absolutely fair. The first thing we have to do is establish whether or not this works. That's actually the key question that needs to be addressed. We are confident that there is plenty of shale there and that it contains gas. The critical question is will it flow at rates that are considered commercial ? You're absolutely right in terms of wells have a habit of peaking, as Tom just said and then declining. But what we've already seen coming out of the US is that with the advance of technology there are two or three things happening. One – well lives are being extended which in simple terms from community benefits, focusing on that aspect – Tom's right, it's probably broadly speaking front end loaded with the revenue stream – but it means that will also go on for longer. So that field life, I would suggest, even if you take his 15 year mid life, could well extend even as we march forward. So my bottom line to all of that is, being very specific about numbers at the moment I think is premature, but it's not inconceivable they could be quite significant and considerable, whether that's 1% or any other figure they will be significant.

The next piece is what's the level of pad density? Bear in mind these pads are between 2 and 4 acres, so in terms of how many there are again you have to look at this a little bit in the light of advancement of technology, because we're talking – I don't know exactly what sort of length of laterals Tom's talking about there – but I'm going to make a guess at say 3,000 ft, 1,000 metres or thereabouts – 2.5km. But we've got the technology to drill 10km. Witch Farm, inshore to offshore, 10km long horizontal wells. So if you're pad density is based on a 2 ½ length then you can double or triple that – you have the inverse situation whereon you're halving or thirthing the number of pads. That's why I'm being slightly evasive but I'm trying to put it into some context. That's a starting point – I think the reality is it won't be anywhere near that sort of density for a number of reasons as Tom's talked about and also through the advancement of technology.

Kevin

So you are consistent with this figure – 8-10 ?

John Blaymires

No, that would be putting words in my mouth. I am being slightly more evasive because we are still evaluating...

Kevin

It's not about putting words in your mouth. It's about putting pictures in the minds of communities which are very concerned about this exploration and the more we just dance around this ...

John Blaymires

We are working very hard at the moment to try and identify this because we are very conscious – from two levels, both from our own company perspective and also from an industry perspective – in trying to get that message out. The issue if we're premature without working this through properly then there's a real danger – because at the moment Reverend Cray is sitting there thinking there's going to be hundreds of wells and hundreds of rigs all over North Yorkshire. Categorically from my perspective that is not going to be the case. First of all we're not going to get consent to do that – we're not going to win over the community's support for doing that etc. We have to find ways to mitigate that and to say to you that we're not industrialising the countryside – I understand the concerns and unfortunately they're predicated on the absence of there being a clear picture. We are desperately trying to make that picture – to get that as soon as we can.

David Robottom

I won't repeat that which my colleagues have made, but I would like to express a couple of points. The exploration phase is around verticals – our well is a vertical well and that will be fracked and tested on the basis of a vertical well, which is going through the reservoir and obviously the thickness that it is. If that is successful then there will be a lateral well related to that, which is the sort of thing that John Blaymires was just referring to which may be 1km, 2km – whatever it is. In the exploration phase you would typically seek to have three or four – or think of a number – sufficient to demonstrate to yourselves that over a geographical spread of locations you have a consistent resource. And it's these laterals - the fracking and production of these laterals – that will give you the best information about a commercial yes or no.

Now the other point I would like to make is that a lot of people in general transpose the US model, which I call the Texas measles, where single wells are drilled on single well sites and that is driven by the fact that the landowner gets a chunk of royalty because he/she owns the mineral rights under the land and as somebody has pointed here we don't do that ..

Therefore the model that is likely, in the development phase, to come to pass in the UK is very different. My colleagues have alluded to it, but I just wanted to make absolutely clear that you understand this. We're calling these various things resource pads – it's an OK name. You have multiple wells on a resource pad. They will deviate, they will go out in not all directions – they directions they go out will be defined by the local geological stresses that are prevalent in that particular area. There will be, associated with those resource pads – and John mentioned about 204 acres, I will not disagree with that – you will have an infrastructure permanently based upon those resource pads which means that your traffic movements in the development phase are much, much lower than they are in the exploration phase when you've got to ship everything in and out for that particular purpose. Because you've got an established resource at that point, you've got stuff there and the impact will be much, much lower.

Kevin

Can I just make a point. People transpose what they see in America here because they see nothing else.

Lord Truscott

Could I just get an idea of the timeline you're thinking of in terms of developing these fields, because obviously the amount of compensation that people receive from government also depends on the timeline you're looking at and will your timeline of development be affected by the current price of hydrocarbons in world, because a lot of companies are postponing major investment.

John Blaymires

No – the current price environment doesn't affect our plans. What does is actually the planning and permitting regime and working our way through that. We are desperately keen to move beyond this exploration phase – we want to prove whether this works or not and actually get to the point where we can talk about what a development might look like, so we're realistically 2018,19,20 before you start to see that coming through.

Kevin Barron

I was going to say what you said a bit earlier Kevin – this is a confusion picture. We want to develop it first to see if it works and yet we've got three companies here in competition with one another. Now people are not daft. We've proved lots of stuff like this offshore.... If you came along to a community in my constituency and gave those three presentations ... I don't think you'd get a great reception. I accept that you're in competition with one another But there are divisions there now, I don't think based on any great factual things. It's based on what somebody can say about this technology – outbid the next person – how awful this was in America etc. and it seems to me that it will need a level of confidence from you as an industry – a level of confidence that's going to say to them it will work.

Kevin

You want a clear picture.

Tom Pickering

I think the first thing is these petroleum exploration licences cover a specific geographical area, so within that area where it's Ineos marked, that's the commitment that we're giving out. So we're not in competition. We're under an obligation within the petroleum act to maximise the recovery of the nation's resource. This is a privatised stewarding of the nation's resource and so there are provisions that are incumbent on us to deploy the best technology at the time to maximise the recovery, much like you see the North Sea life extended because technology has afforded us that opportunity. But I think, from our perspective, what we wanted to do was address the point of community contribution right up front because when we can't consult – we've been out at the Malton Show, we've done 403 parish council briefings, quite a number of just invited meetings.

The message is very clear, which is that people wanted us to give a commitment – we've given the commitment that we would give as a company of the 6%, but actually once you've dealt with that future success picture and said that we will contribute locally, what we now have to do – and people are just telling us straight – is demonstrate conduct, conducted properly and well and address the types of issues at the local level that people are concerned about and get it right. And that's what myself and my team have got to do.

Mark Menzies

I'm the Vice-Chairman of the All Party Group. I represent Fylde and I've been living with shale gas phenomenon for perhaps longer than anyone else. We are now onto our fourth and fifth sites that are in front of the Secretary of State for Planning. I won't go over all the ground that you've covered but I would just like to pick up on a couple of things from a point of clarity. If you take the point that on a 10x10km area you would have 8-10 pads – is that 8-10 pads at any given point in time, so if you take an at peak production you would have 8-10 pads, or is that taken over the lifetime of that particular 10x10 area – that over a lifetime there would be 8-10 pads ?

Tom Pickering

The answer is of course it will grow, so they will be developed a number at a time, so you won't see all of them. My own personal view, being asked, is that you will probably see them remain across that time because as you invest there would a nature of putting in infrastructure to join those sites. Now where a site's production may decline it may still be that infrastructure is in place for a period of time while the gas is evacuated, so yes you will see it and in fact the Chairman has asked industry – and we're near completing it – to try and give some visualisation of that spacing, how it would play out over time with numbers of rigs that you might reasonably expect to see within that landscape and within the planning context.

Mark Menzies

The issue of over-proliferation is one of the great anxieties and one that really gets people concerned. You have people who are deliberately trying to stop this, as well as people that are genuinely concerned, so it's no good trying to talk to people over just maps that will show an absolute torrent of shale gas wells everywhere. What I would like to try and understand is that, if you're confident that a 10x10 area – it could be 8-10 – what conversations have you had with government with regards to enshrining in legislation protections that would prevent over-proliferation in a 10x10 area, for example to say that there will be no more than 10 pads over the production in a 10x10 area. What conversations have you had with government on that ?

Tom Pickering

We have been using a picture with communities to address this point, so we have modelled the Jonah Field in Wyoming referred to. We also just for interest's sake have laid on the red of the Glasgow White Leas, wind farm, which in a land take for wind farm on a surface footprint aerially looking down represents that that is the same as the Jonah Wyoming fields, so to claim that there is not that scale of development already in the UK is a misnomer in itself. Beyond that we have then modelled on in that 11.5sq clearing the two sites and shown that ... we would happily provide that.

Mark Menzies

If you are fairly confident that that's 8-10 on a 10x10 area – what conversation have you had with government to enshrine in legislation reassurance that there will not be you know 50 pads or 30 pads across a 10x10 area.

Tom Pickering

I think there are two things in conflict there. You've got a national resource that requires to be taken out economically, but it's done within a surface context and the planning regime – the development policy that sets out the use of that land is the scheme in Britain that you submit that ambition to and how it plays out.

Mark Menzies

What conversations have you had with government with regard to enshrining legislation ?

Tom Pickering

We've had none..

Mark Menzies

That disappoints me because we've had conversations with government and if those conversations have not then been had with industry then someone is not following through that policy.

Tom Pickering

We have not had conversations with government about that because we deal with it at planning level, at the local authority, through consultation, through the development plan and ultimately.

Mark Menzies

Yes, it's all about cumulative impact. I would come back and say to you – I'm not looking at setting a level that is so low that it is aimed at some back door way of preventing production, that's not what this is about. It's about reassurance of preventing over-proliferation. It also is, if you are confident that you can, as a result of improving technology, hydraulically fracture out at a horizontal well, you can go quite deep, you can extract enough gas that will more than pay its way without going all over the place. Tell me now if you do not get something like this you guys are stuffed, absolutely stuffed. Because you've seen – every single time a planning application has gone in you have seen the battles and councils reluctant to approve.

Kevin

That's a fair question.

David Robottom

We have had no conversations with government regarding for two reasons. First of all because it's wildly premature. Secondly we have been operating conventional well sites, pads in the area for twenty years and we intend to use those existing sites – brownfield you call them in housing terms – in preference and they so happen to be reasonably well distributed with respect to the resource we think. So we are in the fortunate position of being able use those for the first three or four years. Have I thought beyond that ? Yes in conceptual terms. I wouldn't waste government's time with that yet...

Kevin

It's not about wasting government's time it's about giving adequate reassurance to the community and as I think Mr. Pickering is about to allude to, there is obligation upon you to maximise recovery, so of course planning authorities have to assess the cumulative impact – which wins in that battle ?

Tom Pickering

If I might give my reaction to that. Actually to ask government at a national level to legislate – that flies in the fact of local consultation which we've been asked to have. Local consultations are about talking about what we're seeing and the results we see, how we think that will play out and speaking into that development plan with the play out of those sites and then that is at the local level debated and discussed as part of that mechanism. So you would bring the two into conflict if you like.

Lord Truscott

Isn't it the obvious answer that any commercial company is going to want to maximise production from the licensed area that it controls – that's just a fact of life.

Kevin

That's the concern. Yes, OK you sit there and you say give me 10 sites with 100sq km – which is reassuring I think to some people to see these images in Texas. But then if you're able to drive a coach and horses through the plans, it's not saying you would do this but other companies might. They come along and drive a horse through the planning system to say yes you might pull your cumulative impact on this and you say, no we're going to reject it because of cumulative impact - you say 'ah', we've got to maximise recovery so therefore we're going to actually .. so end up with 20/30/40 wells.

David Robottom

Could I bring some perspective to this. The UK uses about 1 ½ TC of gas a year. Somebody said earlier about half of that is currently imported. What we need to look at to give people reassurance is what can we realistically hope as an industry to substitute for those imports – which is one of the reasons why we are doing this by the way, is to substitute for imports. So let's assume we substitute for half of that – which is a very ambitious target. What would it therefore require in terms of the number of the number of pads and the number of wells ? And you'll find that is nationally....That is a much, much lower number. UK gas demand is declining, sadly because of the de-industrialisation and because of its efficiencies and unfortunately our domestic production offshore is also declining, so we're going to need to do that. But if you put it in that context, these concerns that you've raised about pad density just go away.

Kevin

They don't go in people's minds but you're saying different. Unless you're going to get off the fence – you're saying it's not zero but not thousands – there's a big difference between the two and unless you're able to give people the reassurance at this point in time you will then face massive local concern and protest about your plans which ultimately could result in this not happening at all.

John Blaymires

The reason we struggle in Parliament with this is because we've all been in this industry for at last 30+ years and it's because we understand the geology and uncertainties around that you're seeing this – it's our natural engineering thing – we can't be specific about this at the moment because we need to actually drill the wells and understand that. It's not as simple as you just put pads down everywhere. You've actually go to understand what and where they're going to produce from. So giving out any hard and fast numbers at this stage is premature. We understand the need to do this – it's probably one of the biggest issues we have and that's why we are trying to put that out, but also trying to do so in something that gives people something tangible round which they can assess this. As I say I think the numbers that are out there – that end of the spectrum you are pointing to is ludicrous. The sort of figures you have heard today are not unreasonable numbers, as a starting point and the idea ultimately would be through the technology to reduce those. But equally I think there is a point here further down the road that if we do this safely and environmentally responsibly, the way we've been producing conventional fields for the last 40 or 50 years – as I said we have over 100 sites in communities – it can occur. That's using vertical wells. Now we can drill from and go out. So it goes partly to your point about it's the pace of this – is it going to be 8 or 10 in the first three or four years. The answer is no – you build it up over time. Could there be subsequent ones that come along later ? Quite possibly, so you could end up with ultimately more over a 25/30 year period of which the first 5/6 have now been reinstated back to whatever the land was, so potentially there could be that sort of role to help in maximising the economic recovery, assuming that's still required. At any one time I think those aren't a bad number to be running with as a – what's the sort of density. Because the reality as well is there are limited places to which one can go. There is a constraint in terms of that and we can't pepper the countryside, neither would we wish to.

Bishop Cray

Very quickly – firstly I do understand the difference – I was in Pennsylvania the same week as our Chairman and I do understand the differences. Secondly the figure of up to 30 well sites was from an Ineos advert for seismic survey sub-contractors and said it was give the community an idea of the sort of scope, up to 30. Assuming, yes, that we've not got lots of little wells scattered all over the place with different landowners, I understand that perfectly. It raises bigger questions about the communities and therefore compensation for around the communities, where that greater concentration of wells is. When I objected to the amount of traffic for one frack – Mr. Dewar said it's only for eight weeks. What a community needs to know, so it can assess the scale of the impact and so that there is some indication of the scale of compensation – the two are related together – is how more times, how many other eight weeks, how much water, how much fracking. While we have no answers to those questions – I do understand your exploring and I do understand that if you do it once – which I hope you won't – you may find it works and doesn't work. If it seems commercially viable from the test, how many more times do you think you would frack or drill at KM8 ? My community needs some idea of the duration of this because at the moment we are looking at one event.

Ken Cronin

I would just like to make a statement. The individuals opposite have made a number of references to the work we are doing. I think that that will answer a lot of the questions that the committee have and some of the communities have and will outline lots of the issues and assumptions that need to be made in order to come up with the answers. We will have that by the end of the year and will share that with the committee.

Mark Menzies

Because I feel as if I've been doing this for the last six years there have been enormous advances in where we're at in terms of shale gas regulation and so on and so forth, in the UK now compared to six year ago. People are saying that we haven't which is misleading. There have been huge changes and some of that's been driven industry, some by government but I think we've got to recognise that much more can be done but there is still more needed to be done by government and by the industry in order to answer the questions that you yourself and your constituents have. But we have made progress.

Kevin

In my closing comment I would just say clarity – we need absolute clarity and as Kevin has said and other people have said today clarity in terms of community compensation but also what it actually will mean physically for the landscape. I really don't feel we are seeing that at the moment.

Our next meeting will be on Tuesday 8th November at 3pm which is covering community impact. A representative from Pennsylvania will be there.