Impacts of Greater North American Oil Production
Center for Energy Economics Annual Meeting
Remarks by Marianne Kah
December 4, 2013
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OFF THE RECORD
Topics Covered

- Growth in North American Oil Production
- Impacts on Markets and Economies
- Key Uncertainties in Oil Outlook
- Challenges to Developing New Supplies
Turnaround in U.S. Oil Production

U.S. Oil, Condensate and Natural Gas Liquids (NGL) Production

Liquids production has returned to levels not seen since 1986

Source: U.S. Department of Energy, EIA, Annual Energy Review 2013, Table 5.1b
The Shale Revolution Has Spread to Oil

Drilling Moved from Gas to Oil

Top 4 Oil Producing States

Huge turnaround in Texas and North Dakota

Source: Baker Hughes, U.S. Department of Energy, Energy Information Administration
Most U.S. tight oil resources break even with WTI prices at $50 - $80/bbl

Source: Rystad Energy, excludes NGLs

* Lower 48 proved, probable, possible and contingent resources; crude and condensate only; excludes existing production and undiscovered resources

** Breakeven includes 10% return, land acquisition costs of $5/bbl were added across the board
Eagle Ford Efficiency Improvement

Oil Initial Production Rate (BBL/d)

Drilling Days (spud to rig release)

Technology improvement offsets movement away from sweet spots

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U.S. Has Returned to Being a Major World Producer

U.S. was largest natural gas producer in 2012

U.S. crude oil production growth surpassed all others in recent years

Viewed as improvement to U.S. energy security

Source: BP Statistical Review 2013

Source: Oil and Gas Journal; 2012 vs. 2008 average
Oil imports meet only 35% of current U.S. demand vs. 66% in 2006

Source: U.S. Department of Energy, EIA  *Net of exports
Domestic Production is Reducing Reliance on Imports

U.S. imports of light, sweet crude oil have fallen sharply

Source: U.S. Department of Energy, EIA
Oil independence likely by 2020

Source: PIRA Energy Group
Global Shale Oil Resources

Technically Recoverable Shale Oil Resources – 345 Billion Barrels

Other geographies missing U.S. benefits:

- Privately owned mineral rights
- Pipeline infrastructure with open access
- Large, safe, modern, efficient domestic drilling rig fleet
- Skilled oil & gas workforce
- Supporting road, utility & other infrastructures
- Well-established, predictable & stable regulatory & legal systems

Substantial shale potential exists in numerous countries

Source: ARI for U.S. Department of Energy, EIA, June 2013
Market Impact of Rapid Growth in U.S. and Canadian Crude Oil Production

WTI-Brent Crude Oil Price Differential

LLS-Brent Crude Oil Price Differential

WCS-WTI Crude Oil Price Differential

Discounting of U.S. and Canadian crude oil prices

Source: ICE Brent and NYMEX WTI as of 11/29/2013. Platts for historical prices.
Global Oil Demand vs. Non-OPEC Oil Production* Growth

*Non-OPEC oil production includes NGLs (including OPEC), biofuels and refinery process gain
Global Crude Supply Disruptions

Growth in Global Supply Disruptions (MMBD)

Increase in losses since December 2009

Growth in U.S. Tight Oil Production (MMBD)

Increase in production since December 2009

Global supply disruptions outpacing growth in U.S. tight oil

Source: PIRA Energy Group; oil is crude and condensates only, excludes NGLs
Importance of Oil and Natural Gas to U.S. Economy

**Employment**
- O&G industry supports 9.8 million U.S. jobs
- 1.4 million more jobs possible by 2030 with policies that encourage greater resource development

**Economy**
- The industry generates ≥ $1.2 trillion or 8% of U.S. GDP
- Lower natural gas prices will increase GDP 1.1% in 2013; support 3% higher industrial production in 2017

**Government Revenues**
- O&G companies pay $86+ million/day in federal income taxes & production fees
- Policies that encourage development would raise over $800 billion in additional cumulative government revenue by 2030

**Adds jobs, promotes economic growth & provides government revenues**

NGLs are Breathing New Life into U.S. Chemicals Industry

NGL Production Growth has Pushed Infrastructure Build-Outs

U.S. is Now a Net Exporter of LPGs

Net imports, Million barrels per day

Chemicals Feedstock Costs Favor U.S.

Price ratio of Mt. Belvieu purity ethane vs. Singapore naphtha

Plentiful & affordable feedstocks for manufacturers

Key Uncertainties in Oil Outlook

**Demand**
- Global economic recovery
- Penetration of alternative fuels and vehicles (including natural gas) and efficiency improvement (government policy, consumer & technology driven)
- Government climate policies

**Supply**
- Pace of unconventional supply development (public acceptance, gov’t policy, etc.)
- Level of oil supply disruptions (e.g., Iran, Libya)
- OPEC response to increases in OPEC and tight oil production
- Technology advances (conventional, unconventional, GTL, etc.)
- Government policy (e.g., resource access, fiscal terms, regulation, etc.)
Challenges to Developing New Supplies

- **Weak demand, commodity price discounts vs. international markets**

- **Infrastructure permitting delays**

- **Import/export needs**
  - U.S. has surplus light oil
  - Refineries need heavy oil

- **Stakeholder Issues**
  - Concerns over local impacts
  - “Off Fossil Fuel” agenda

- **Workforce issues**
  - Demographics of petro-techs

- **Government policy concerns**
  - O&G singled out for taxation
  - Restricted resource access
  - Unnecessarily costly regulation
  - Picking technology “winners”
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