



**The Road to North American
Energy Independence**

**PESA Annual Meeting
Tucson, Arizona
April 3, 2014**

Topics

- **North American Gas Supply and Price Impact**
- **Shale Oil Macro**
- **Shale Oil Play Overview**
- **International Shale Outlook**
- **Conclusions**

North American Gas Supply

- **No Big Surprises from Current Perceptions**
- **Enough Shale Gas for 50+ Years Domestic Supply**
- **Associated Gas from Shale Combo Plays Will Be a Big Additional Contributor**

North American Gas

Macro and Price Impact

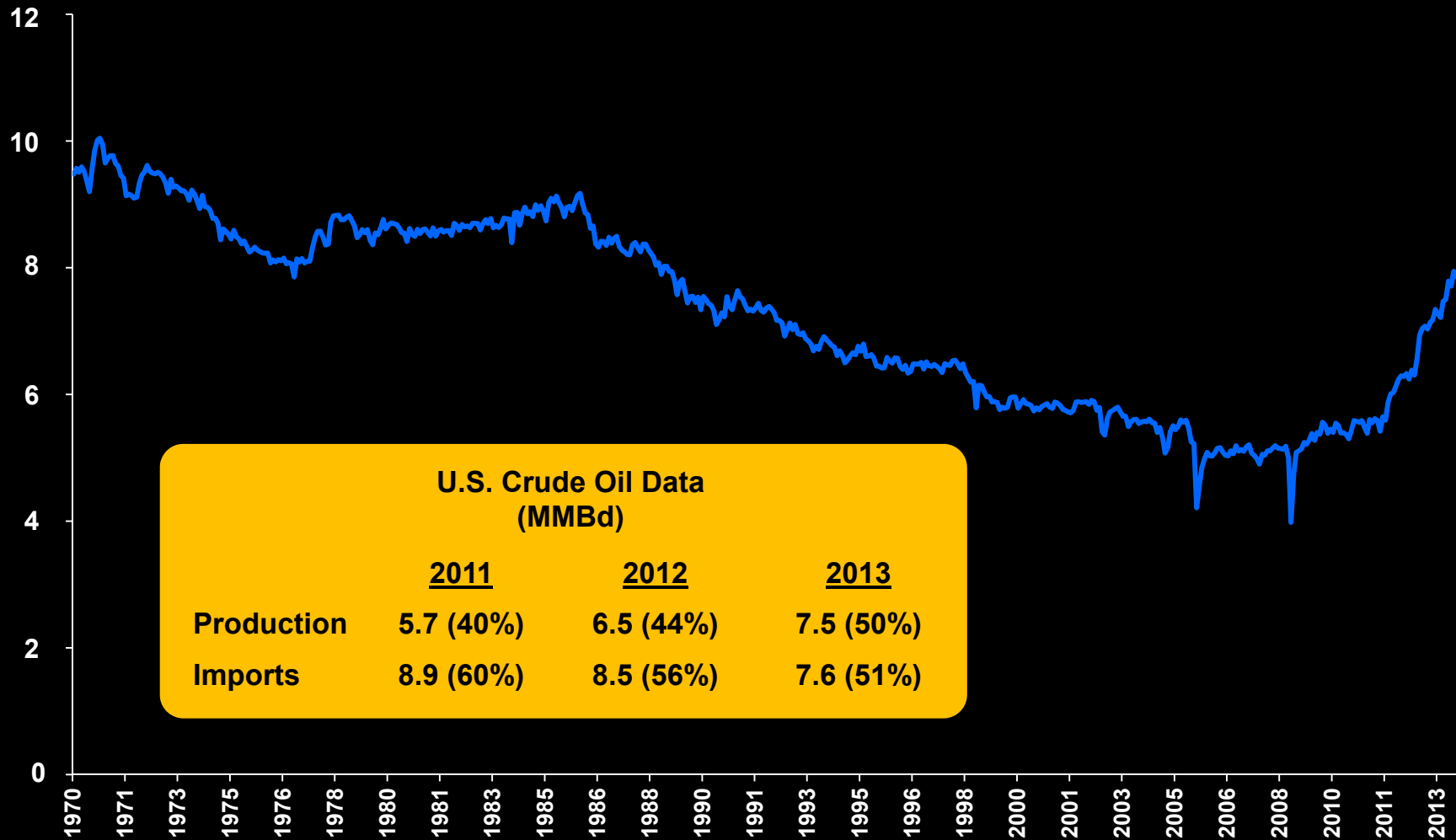
- **Prices Likely Rangebound \$3.75 - \$4.75/Mcf Until \approx 2018**
 - Supply Trumps Demand
- **2014 Will Be at Upper End of Price Range**
- **Ethane Oversupply Will Continue through 2018**
- **After 2018, Price Improvement Likely**
 - Domestic and Canadian LNG Exports
 - Power Gen Coal Switching
 - (Minor) Transportation Displacement

Domestic Shale Oil Supply Conclusions

- **What Inning Are We In?**
 - **Finding New Domestic Shale Oil Plays – 7th**
 - **Improving Recovery Factors in Premier Existing Plays – 4th**
- **Quality Fields Will Get Better Through Technology, Perhaps Dramatically Better**
 - **Marginal Plays Will Remain Marginal**
- **U.S. Oil Growth Will Slow**
 - **This is Already Happening**
- **Wall Street Has Overstated Expectations of Permian Oil Growth**

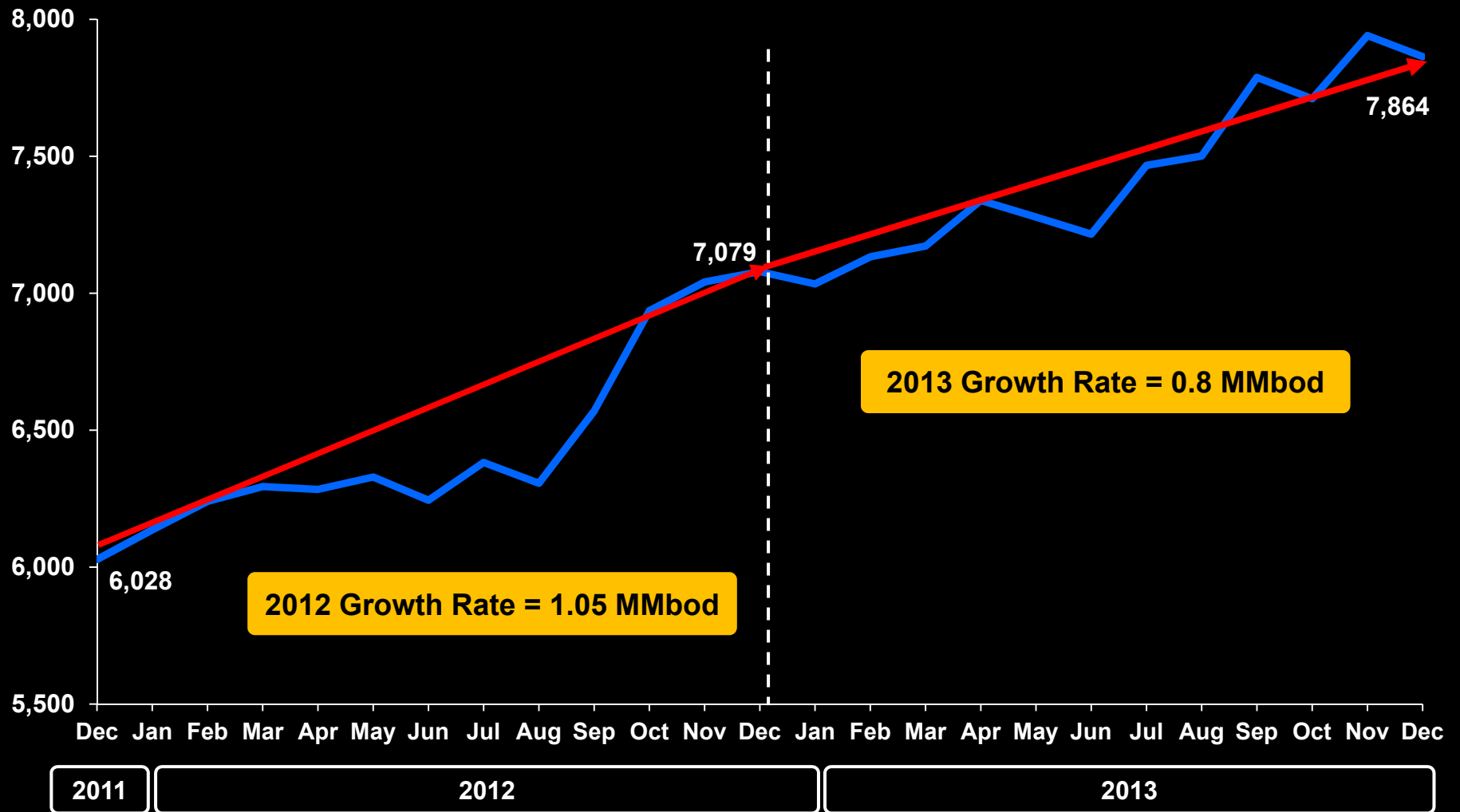
U.S. Crude Oil Production*

Million Barrels Per Day



* Source: EIA / Data through December 2013.

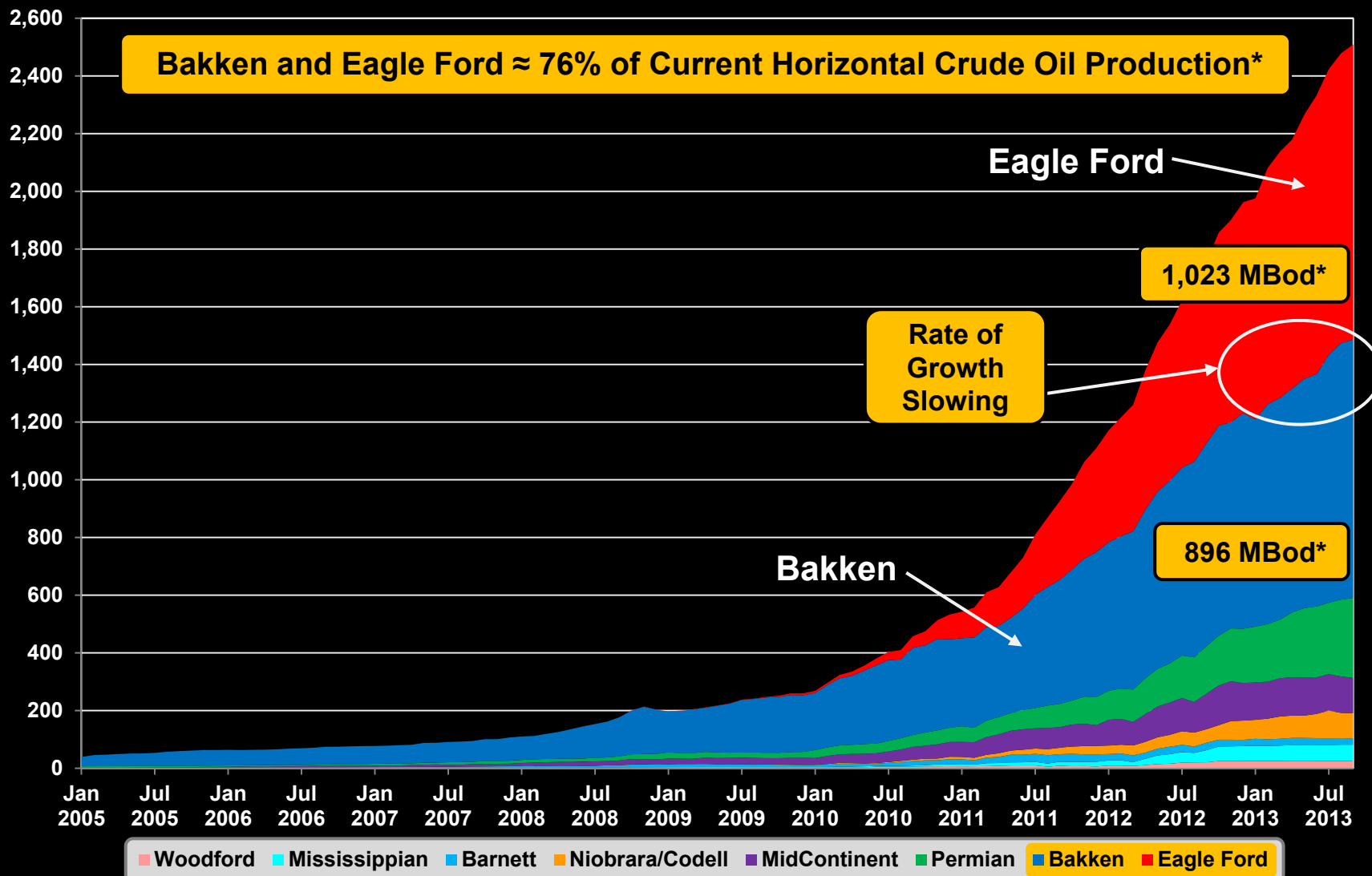
Monthly U.S. Crude Oil Production Growth* December 2011 - December 2013 (Mbod)



* Source: EIA; 2012, 2013 growth calculated as December to December.

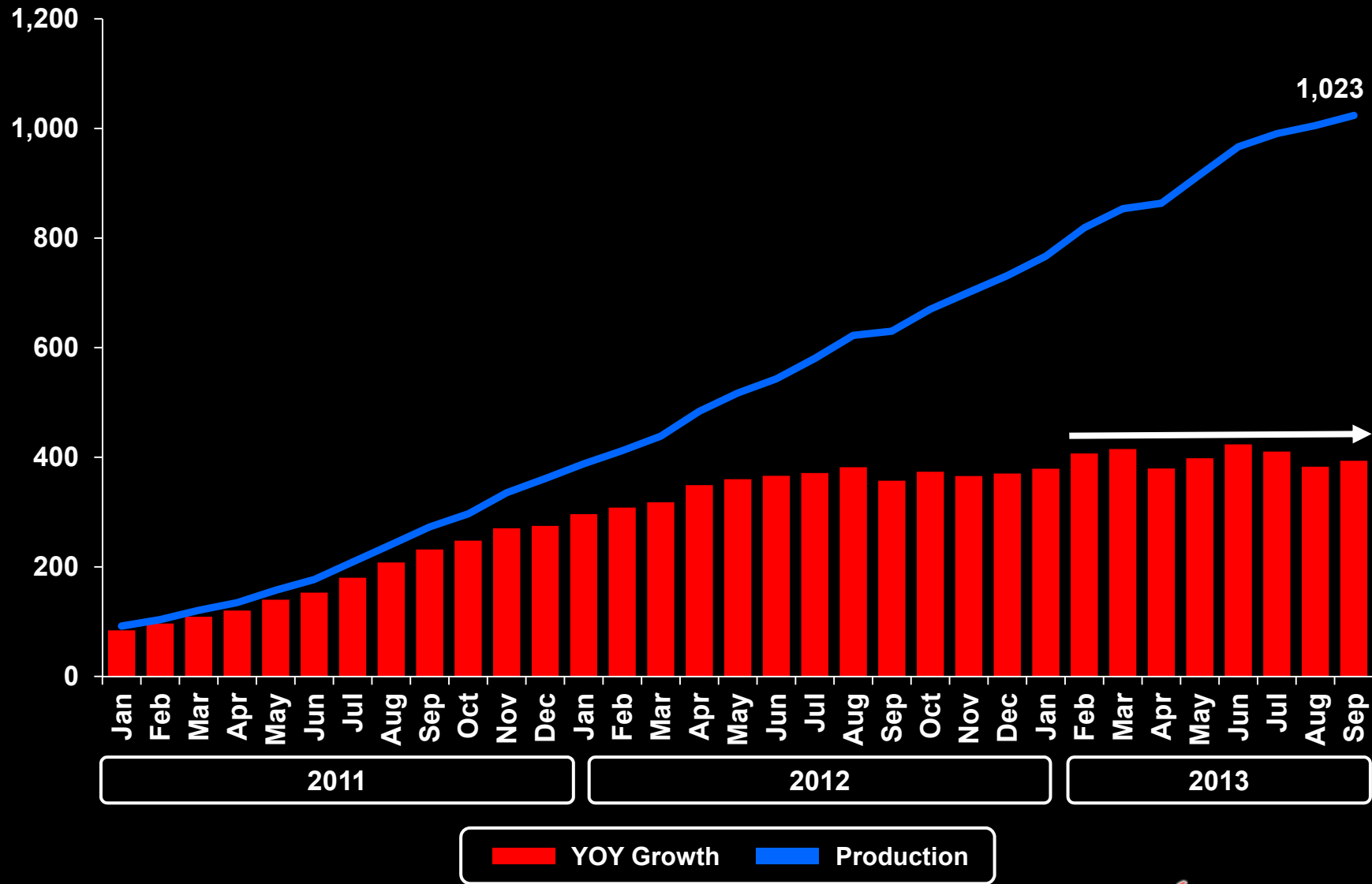
U.S. Horizontal Crude Oil Growth 2005 - 2013*

Only Two Major Drivers



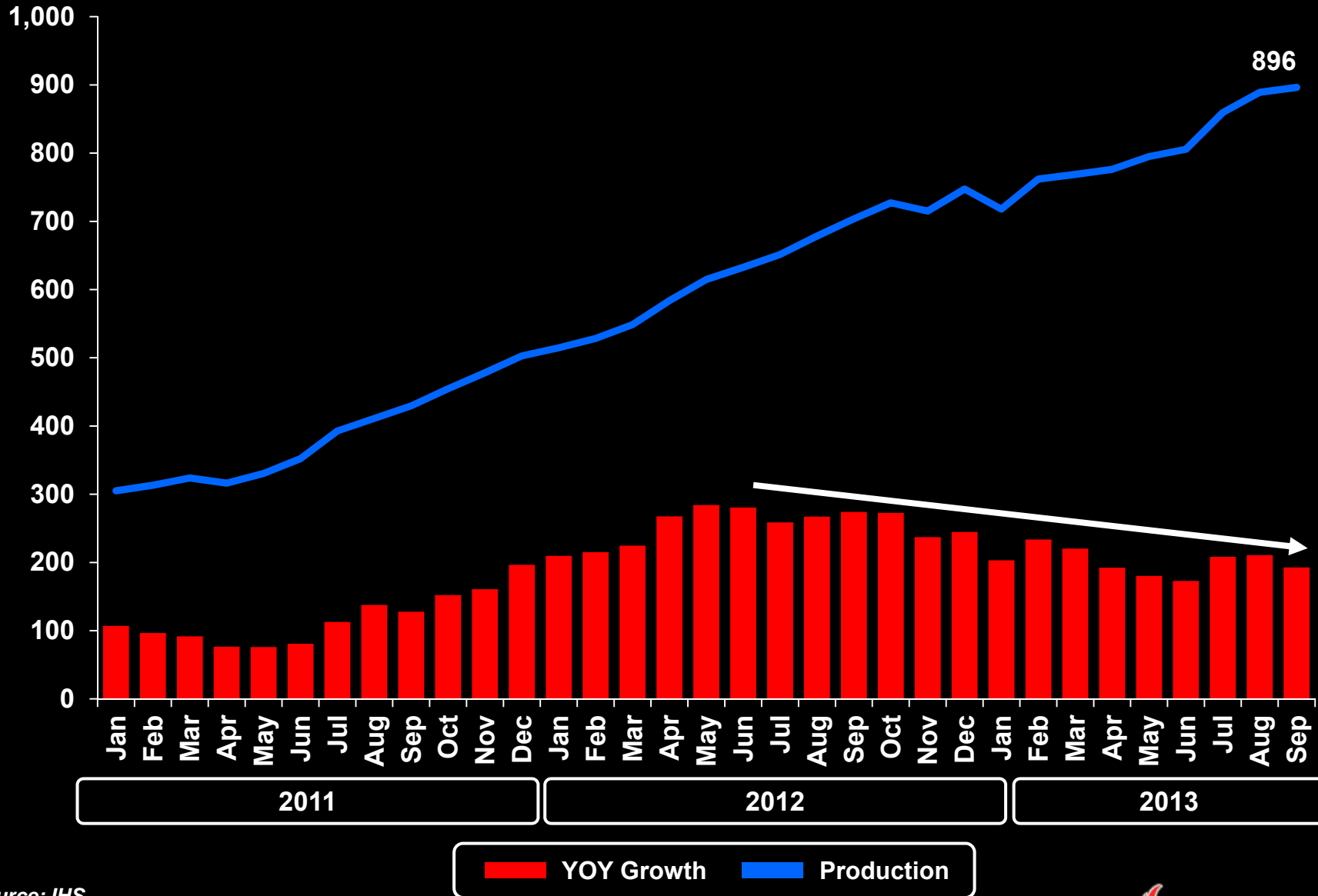
* Source: IHS Data through September 2013. Incomplete OK production after October 2012 adjusted to keep flat to October 2012. Select Onshore Lower 48 formations with growing crude oil production.

Eagle Ford (Mbod)



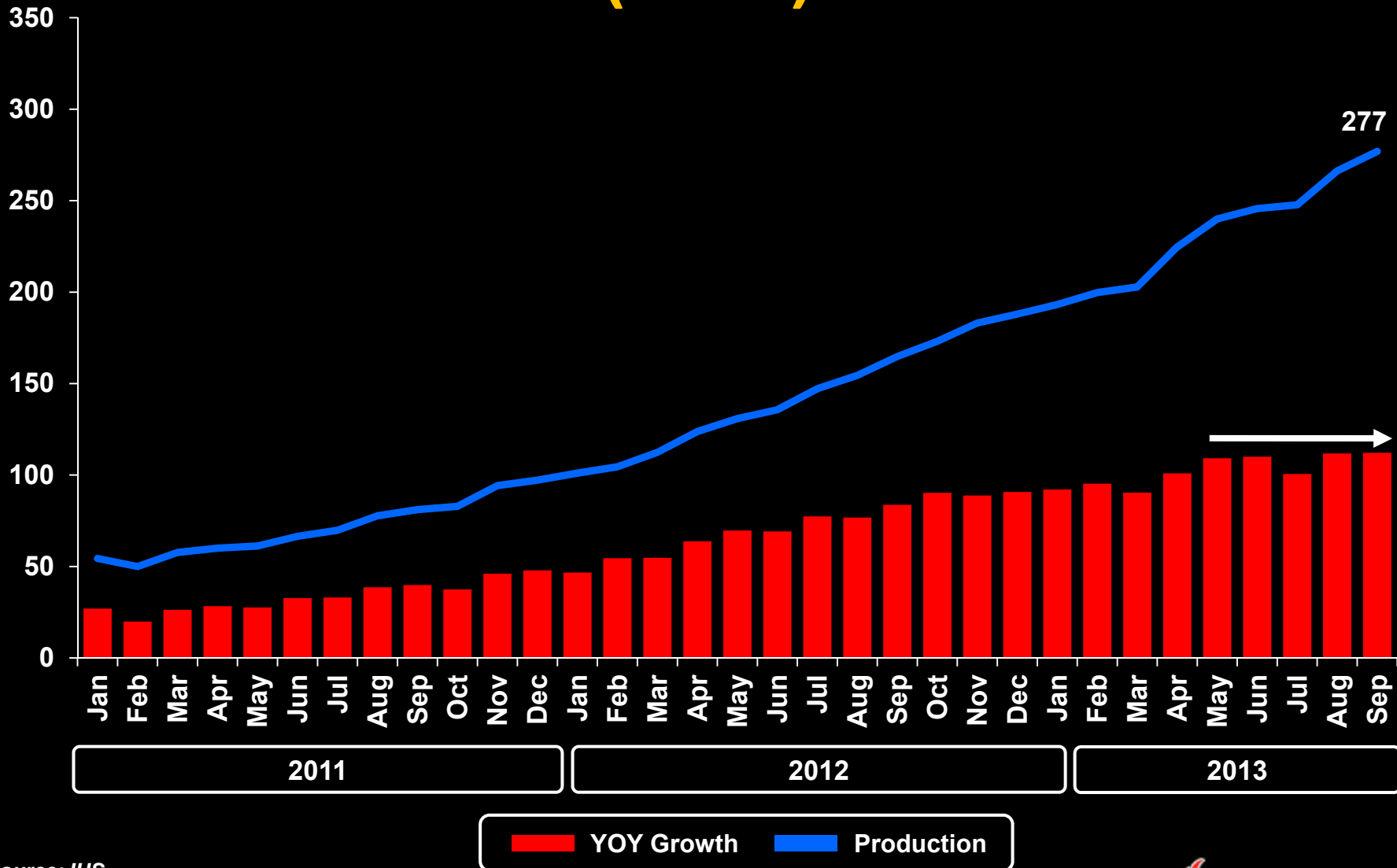
Source: IHS

Bakken North Dakota and Montana (Mbod)



Source: IHS

Permian Texas and New Mexico Horizontal Production (Mbod)



Source: IHS

U.S. Oil Macro and Price Implications

● Minimum 4+ Years of Headroom for U.S. Light Sweet Crude

	<u>MMbd</u>
- Displacement of Imports (Light) and Blending (Medium)	2.2
- Refineries	
- Retooling/Expansions	<u>1.0</u>
- Total Additional Potential Capacity	3.2
- Increased Refinery Utilization – Every 1% Increase	0.18

● Other Potential Headroom

	<u>Mbd</u>
- Possible Alaska North Slope Exports	500
- Export Canadian Light to Non U.S. and Backfill with Imported U.S. Light	100

● Price Implications

- Brent/WTI Spread Will Motivate Other System Changes
- WTI/LLS Spread Likely to Stay Narrow

● Allows Time for Export Regs to Change

International Shale Outlook Oil and Gas

- **After a Decade**
 - **No One Has Found Any Commercial Shale Oil or Gas Outside of North America**
- **Expect Very Slow Progress (5-15 Years Away)**

Conclusions

- **U.S. Oil Growth Will Slow and North America Will Likely Not Become Fully Oil Independent by 2020. Still the Shale Revolution is the Best Overall U.S. Economic News in ±50 Years**
- **Top Quality Shale Plays (Marcellus, Eagle Ford, Bakken) Will Get Better With Additional Time and Technology**
- **Marginal Shale Plays Will Remain Marginal, i.e. Technology Will Provide Only Slight Improvement**
- **The North American Gas Market Will Improve, But Not Until ≈ 2018+**
- **Concerns About Domestic Light Crude Oil Supply/Demand Fundamentals Are Overstated and Perhaps Totally Unfounded**
- **International Shale Oil is Unlikely to Affect Global Supply Within the Next 5-10 Years**

Conclusions Specific to PESA Members

- **Domestic Oil Activity Levels Are Likely to Remain High as E&Ps Pedal Faster and Faster to Show Production Growth**
- **Domestic Post Completion Oil Opportunities Will Be Very Large (Pumping, Chemicals, Compression, etc.)**
- **Domestic Gas Activity Will Likely Accelerate 2018+**



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