

From: Myron Ebell [Myron.Ebell@cei.org]
Sent: 2/1/2018 5:44:31 PM
To: Myron Ebell [Myron.Ebell@cei.org]
Subject: Cooler Heads Coalition meeting, Monday, 5th February, noon at CEI

Reminder: The Cooler Heads Coalition will hold its next monthly strategy meeting beginning at 12 noon on Monday, 5th February, at CEI, 1310 L Street, N. W., Seventh Floor. Please e-mail or ring me at **Ex. 6** with agenda items or questions. For new attendees, we do not serve lunch or even drinks, but you are welcome to bring your own.

Three items of interest:

1. **CEI today released a letter that two of my colleagues, Sam Kazman and Devin Watkins, have sent to the SEC.** Here are the first two paragraphs:

It has come to our attention that various municipalities expect substantial future financial harm, but have either explicitly disclaimed the ability to determine such harms or at the least omitted these potential harms when informing bond investors. We wish to notify the SEC of these potential problems so that they can be properly investigated with appropriate action taken to protect investors.

A number of California cities and counties have recently filed lawsuits against several oil and gas companies, claiming that these companies failed to disclose the alleged risks of climate change. However, in these lawsuits the plaintiff cities and counties apparently describe these climate risks in ways that are far different than how they described them in their own bond offerings. In our view, this inconsistency raises serious questions of municipal bond fraud under 15 U.S.C. § 77q(a)(2).

The letter is posted at: <https://cei.org/content/sec-investigate-securities-fraud-california-climate-r>.

2. **A comment on President Trump's State of the Union.** He could have given more than two sentences to the remarkable de-regulatory actions taken in energy and climate policy during his first year. On the other hand, it's also remarkable that he didn't mention global warming, climate change, renewable energy, or alternative energy. The Washington Post did some useful research and discovered that this is the first State of the Union speech in fourteen years in which no form of alternative energy was mentioned. We have come a long way since President George W. Bush told us on 31st January 2006 that, "America is addicted to oil." Here is the link to the Post story:

https://www.washingtonpost.com/news/powerpost/paloma/the-energy-202/2018/02/01/the-energy-202-trump-says-he-has-an-all-of-the-above-energy-strategy-but-coal-gets-top-billing/5a71f62c30fb041c3c7d7550/?utm_term=.7b09b8355213

3. **The New York Times's lead story on Monday was quite astonishing**, not because of its unremarkable content, but rather because it was in the New York Times at all. I've pasted the article, which in the print edition appeared at the top of the right column with the headline, *Rising Oil Prices Give U. S. an Edge in Global Energy*, below. "This is a 180-degree turn for the United States and the impacts are being felt around the world," said Daniel Yergin, the economic historian and author of "The Prize: The Epic Quest for Oil, Money and Power." "This not only contributes to U.S. energy security but also contributes to world energy security by bringing new supplies to the world."

Oil Boom Gives the U.S. a New Edge in Energy and Diplomacy

By **CLIFFORD KRAUSS** JAN. 28, 2018

<https://www.nytimes.com/2018/01/28/business/energy-environment/oil-boom.html>

HOUSTON — A substantial rise in oil prices in recent months has led to a resurgence in American oil production, enabling the country to challenge the dominance of Saudi Arabia and dampen price pressures at the pump.

The success has come in the face of efforts by Saudi Arabia and its oil allies to undercut the shale drilling spree in the United States. Those strategies backfired and ultimately ended up benefiting the oil industry.

Overcoming three years of slumping prices proved the resiliency of the shale boom. Energy companies and their financial backers were able to weather market turmoil — and the maneuvers of the global oil cartel — by adjusting exploration and extraction techniques.

After a painful shakeout in the industry that included scores of bankruptcies and a significant loss of jobs, a steadier shale-drilling industry is arising, anchored by better-financed companies.

With the price of West Texas intermediate crude above \$65 a barrel, a level not seen in almost three years, the United States is becoming a dominant producer. It is able to outflank competitors in supplying growing global markets, particularly China and India, while slashing imports from the Middle East and North Africa.

This year, the United States is expected to surpass Saudi Arabia and to rival Russia as the world's leader, with record output of over 10 million barrels a day, according to the [International Energy Agency](#).

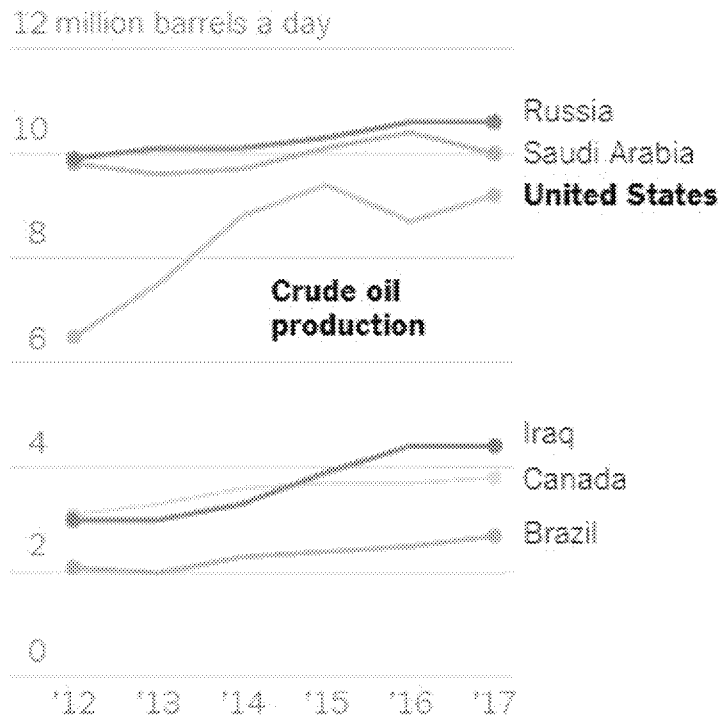
“This is a 180-degree turn for the United States and the impacts are being felt around the world,” said Daniel Yergin, the economic historian and author of “The Prize: The Epic Quest for Oil, Money and Power.” “This not only contributes to U.S. energy security but also contributes to world energy security by bringing new supplies to the world.”

Catching Up

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Sources: U.S. Energy Information Administration; Organization of the Petroleum Exporting Countries (OPEC) | By The New York Times

At the same time, the United States is becoming a major exporter of natural gas, another outgrowth of the shale revolution, undercutting Russian energy dominance over Eastern Europe.

The improving energy picture comes as the Trump administration is attempting to increase offshore drilling and loosen other regulations on fossil fuel development. But just as the surge in oil and gas production in shale fields during the Barack Obama administration had

little to do with Washington, the current rise is the result of private companies responding to global markets.

Shale fields can be developed relatively quickly and at modest costs relative to the giant projects, whether on land or offshore, that were once favored by big oil companies. That makes it easier to turn investment spigots on or off to adjust to market fluctuations. Companies like Exxon Mobil and Chevron are putting increasing amounts of capital in shale fields, particularly in West Texas and New Mexico.



Cars lining up for gas at a California service station in 1973, when an Arab oil embargo caused vast disruption. CreditAssociated Press

The results go far beyond the economic, offering Washington strategic weapons once unthinkable. The United States and its allies now have a supply cushion at a time when political turmoil in Venezuela, Libya and Nigeria is threatening to interrupt flows to markets.

Only a few years ago, such threats — along with a recent pipeline failure in the North Sea and storms in the Gulf of Mexico — would have sent the price of crude soaring. Instead, the rise has been muted, and gasoline at the pump remains below \$2.60 a gallon across most of the United States.

The new energy power also relieves pressure on Washington to act militarily if tensions between Iran and Saudi Arabia break out into war. And it gives Washington the leeway to apply sanctions on other producers — as it has in Russia, and may in Iran or Venezuela — with far less risk to the global economy.

It is a striking contrast to the 1970s, when Arab oil boycotts forced motorists to line up for blocks to fill their tanks and the economy went into a tailspin. Even more recently, during the presidency of George W. Bush, domestic oil output was declining so rapidly that the country set a course to replace oil with biofuels like ethanol.

Many environmentalists argue that by increasing oil and gas supplies and lowering prices for consumers, shale drilling is extending the life of fossil fuels to the detriment of the environment and the development of cleaner energy.

The shale drilling revolution has remade the global energy market, with imports from members of the Organization of the Petroleum Exporting Countries plunging by 20 percent

from late 2016 to late 2017. At the same time, exports rose by hundreds of thousands of barrels a day.

Nothing like the current situation was foreseen in late 2014, when rising domestic production began weighing on global oil prices.

In response, Saudi Arabia led OPEC in a new direction. Instead of throttling back to support prices as the cartel had done so often, it left the market alone and even increased production for a time.

Prices fell below \$40 a barrel, as the Saudis and their allies hoped to drive American operations out of business by making shale drilling uneconomical. American exploration quickly dropped, but the price squeeze made companies more innovative in the use of drilling technologies, robotics and sensors to maximize output and reduce costs.

While scores of smaller companies went out of business, the survivors lengthened horizontal wells to yield more oil, and used clever hedging and drilling strategies to maximize profits even when prices slumped.

The response surprised the global oil community. OPEC, Russia and allied producing countries changed course and began cutting back again in 2016.

“OPEC missed the point,” said René Ortiz, a former OPEC secretary general and former Ecuadorean energy minister. “They thought they could recover the U.S. market by bringing the prices down. Now the U.S. has gained the leading position in the world oil market regardless of what OPEC does.”

“This displacement of Saudi oil, Nigerian oil, Libyan oil and Venezuelan oil,” Mr. Ortiz concluded, “was never anticipated.”

A week ago, OPEC leaders met in Oman to discuss a probable extension of production cuts into 2019 to support prices. Their biggest obstacle is the United States.

Technological advances unlocking oil from tight rocks like shale has led to a drilling frenzy enabling a doubling of output in a decade, transforming unlikely places like North Dakota and New Mexico into world class petroleum hubs. Pipelines are being built across Texas to serve ports where oil can be pumped onto tankers headed for China, India and other markets.

Domestic production last year averaged 9.3 million barrels a day, and the Energy Department projects that the figure will climb to 10.3 million barrels a day this year, surpassing the record set in 1970. In the meantime, since a 40-year export ban was lifted in 2015, exports of American oil have risen to roughly two million barrels a day — more than many OPEC members.

The department projects an additional increase in domestic production of 500,000 barrels a day in 2019.

Concerns over climate change as well as the growing popularity of electric cars and the eventual aging of the best shale fields will probably curb production and demand over the next few decades. But in the short term, the boom has changed the landscape.

The Energy Department projects that the recent surge will hold the price of Brent crude, the global benchmark, to \$60 a barrel in 2018 and \$61 a barrel in 2019 — a modest increase from \$54 last year. (The Brent price rose above \$70 a barrel this month, but few analysts see a return to \$100-a-barrel oil.)

The emerging order in the energy realm is a stable balance of power. Saudi Arabia, which essentially runs OPEC, has put a floor under the oil price — probably around \$50 a barrel — with its limits on output and exports over the last four years. But now the United States, by the sheer force of its production, the supremacy of its technology, and an unmatched pipeline, refinery and storage structure, has put a ceiling to the price.

Experts note that when oil climbs to \$60 a barrel and higher, as it has lately, a drilling rush commences — the national rig count has climbed by over a third in the last year — promising to refill domestic and even global energy inventories. Only a major war or other disruption is likely to send prices soaring.

“We have all suffered these depressed prices over the last two years and we are excited to see the new prices and we will respond accordingly,” said Harald Jordan, vice president for engineering at Peak Energy, a Colorado-based producer. “You will see rig activity continue to increase.”

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