Crude Oil Exports: Implications for Alaska

Alaska Energy Export Luncheon

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History of Oil Exports

• OPEC proclaimed oil embargo against US and other countries in 1973, which limited supply and raised prices for crude oil.

• That same year, U.S. bans crude exports to conserve domestic supplies.

• President Clinton lifted the ban on Alaska exports in 1996.

• Between 1996 and 2004, approximately 2.7% of ANS production (~3.6 MMBbls) was exported to Asia Pacific countries*. No ANS crude was exported between 2004 and 2013.

• ConocoPhillips has recently shipped two cargoes of crude to Asian markets: one in Sept 2014, and the second in April 2015.

U.S. Oil Production and M. King Hubbert’s Peak Oil Theory

Sources: BP statistical review of world energy 2012 and U.S. EIA Annual Energy Outlook 2014; oil production numbers include condensate and NGLs.
U.S. Oil Production and M. King Hubbert’s Peak Oil Theory

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Current Production is 8,893 mbpd

Sources: BP statistical review of world energy 2012 and U.S. EIA Annual Energy Outlook 2014; oil production numbers include condensate and NGLs
Mega-Trend = a breakthrough that allows industry to access > 500 billion BOEs
U.S. Oil Production is Set to Expand

**U.S. Crude, Condensate, Natural Gas Liquids Forecast**

- **EIA’s High Resource Case**
- **U.S. Tight Oil**
- **Conventional Production**
- **Alaska Crude**
- **NGLs**

**Light Tight Oil Output could increase more than 85% by 2020**

- **Bakken, Permian, & Eagle Ford** make up 75-80% of total U.S. tight oil production

**Liquids production has returned to levels not seen since 1972**

*Source: U.S. Department of Energy, EIA Annual Energy Outlook 2015, various forecasts*
New Era of Abundance for U.S. Oil Supply

The U.S. is now the biggest oil producer in the world, surpassing Saudi Arabia and Russia.

Source: U.S. Department of Energy, EIA, Monthly Energy Review March 2015, Table 3.1. Forecast from EIA Annual Energy Outlook 2015,
## U.S. Tight Oil: The Biggest Driver Behind the Oil Renaissance

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<th>OPEC Members</th>
<th>2010</th>
<th>2011</th>
<th>2013</th>
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<td>Saudi Arabia</td>
<td>4.2 MMBO per Day</td>
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<td>3.1 MMBO per Day</td>
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<td>1.3 MMBO per Day</td>
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**U.S. tight oil production alone is larger than production in most OPEC nations**

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OPEC Production ranked from highest (Saudi Arabia) to lowest per 2013 IEA reported production volumes. OPEC Neutral Zone production split between Saudi Arabia and Kuwait. Sources: IEA for OPEC production; EIA Annual Energy Outlook and Rystad Energy for U.S. Tight Oil. NOTE: Tight oil production includes liquids from tight natural gas plays.
High growth in U.S. tight oil and NGLs production has restored the U.S.'s role as an oil powerhouse.

OPEC Neutral Zone production split between Saudi Arabia and Kuwait
Why U.S. Crude Oil Exports are Needed Today

- The crude export ban is an outdated policy that doesn’t reflect current oil abundance in the U.S.
  - Export ban enacted in 1970s when U.S. oil production was in decline, price controls were in effect and the country was dealing with the Arab oil embargo
  - Refined products, like gasoline are freely exported
- Mismatch between the quality of “tight oil” and U.S. refinery configuration
  - “Tight oil” is super light, while many U.S. refineries were built to process heavy types of crude.
  - Allowing exports provides additional markets where that crude can be processed
- U.S. oil production is surpassing U.S. refiners’ ability to process it economically
  - Refiners require a discount on domestic crude oil prices to run sub-optimally in order to process more tight oil
  - Discount hurts oil producer ability to invest in new supply

Distillation Capacity versus Heavy Oil Coking Capacity

- The U.S. has two-thirds of the world’s coking capacity

Blending U.S. tight oil into larger world pool is a more efficient allocation

Source: Bloomberg
Case for ANS Crude Exports

Rail Unloading Capacity on West Coast

Puget Sound
140 MBD Currently Operating
+90 MBD Planned

Portland/SW WA
30 MBD Currently Operating
+260 MBD Planned

San Francisco Area
10 MBD Currently Operating
+60 MBD Planned

Bakersfield Area
30 MBD Currently Operating
+190 MBD Planned

L.A. Area
72 MBD Currently Operating

Current West Coast rail unloading capacity ~280 MBD
Could reach 880 MBD capacity by end-2016

West Coast imports of ANS are facing increased competition from Lower 48, Canada & South America

Source: ConocoPhillips, Various; Platts for prices
Market Evidence That Gasoline Prices Are Set Globally by International Crude Prices Rather than Domestic Crude Prices

Refined product prices around the world track each other demonstrating that US gasoline prices are set globally.

Refined product prices more closely track international crude prices (Brent) than US domestic crude prices (WTI).

U.S. crude exports should lower U.S. gasoline prices
Benefits of U.S. Crude Oil Exports

• Could lower consumer fuel costs at the pump by $18 billion annually

• U.S. economy could gain $135 billion and about one million jobs at its peak

• Reduce nation’s oil import bill by $67 billion annually

• Increase government revenues by $1.3 trillion between 2016-2030

• Strengthen U.S. geopolitical position

• Removing domestic crude price discounts caused by the ban could increase investment in new production

• Strengthen market demand for ANS crude and provide additional cash for reinvestment

Thank you!