



## Driving With a Tail Wind: The Energy Business Today

### **A Conversation with Dan Pickering** Co-President of Tudor, Pickering, Holt & Co and Head of TPH Asset Management

*A keynote speaker at COGA's investment forum this year, Dan Pickering is Co-President of Tudor, Pickering, Holt & Co. and serves as Chief Energy Strategist and Head of TPH Asset Management. In 2004, he founded Pickering Energy Partners, which combined with Tudor Capital in 2007. Prior to founding the firm, Pickering served as Head of Research at Simmons & Company, International. He also gained buy-side experience with Fidelity Investments and industry experience at ARCO Alaska, Inc. Pickering holds a BS in Petroleum Engineering from the University of Missouri as well as an MBA from the University of Chicago. Recently, he crafted a thoughtful response to a New York Times article on natural gas. <http://newsroom.coga.org/pr/coga/document/2011-06-28 -- Pickering Views on NYT Natural Gas Commentary.pdf>*

### **It's July 2011, Dan. In your view, what are the most important trends shaping the oil and gas industry right now?**

“Well, there are three major issues at the moment.

The first issue revolves around the global macro-economic picture, and that's really important. Growth is spurring big hydrocarbon demand around the world, and this is happening in a fairly tight environment when it comes to hydrocarbon supply – especially oil. So, macro-economic growth is a key variable that is helping to drive the current energy equation.

The second issue focuses on unconventional resources, which are especially significant in North America. This is also becoming a bigger deal internationally. Unconventional is a huge driver of North American activity and production. It's really all about technology applications, and we're seeing horizontal drilling being applied in old and new areas.

The third issue is lurking under the surface. And here I'm talking about regulatory issues surrounding hydraulic fracturing and carbon emissions.

The first two issues are driving a big opportunity. And the third is having a throttling effect that will remain in place for a long while, unless robustly addressed by industry.”

### **How important do you think public perception and good will are in terms of prices and the overall economic success of the oil and gas industry?**

“The harsh reality, as I indicated a moment ago, is that we don't dictate prices – supply and demand do. Despite this fact, the oil and gas business doesn't have a pleasant reputation among the public. And yet people still get in their cars and drive, or they flick on the light switch on the wall. They need and want what we produce.

That said, I do think that good will, doing the right thing, contributes to the economic success of the business because it helps in terms of government relations and access. Governments are much less likely to penalize or tax an industry that has a good vibe with the public.



In the end, I'm not sure that the public fully appreciates what a vitally important business oil and gas really is. Nor do people understand the boom and bust nature of what we do, the huge investments and big financial risks we are forced to take in order to deliver energy to communities.

So, there's a lot of love and hate out there for oil and gas.

To its credit, the industry is trying to do a better job of educating the public about its importance. Alternative energy is making the job easier, because it's cool to be green. But, overall, I would say that the energy business is under-appreciated, and we need to change this."

## **So, you think that public education is the way to build greater support for the oil and gas industry in the United States?**

"Yes. The industry has to be more proactive in terms of making its case to the public and educating people about the facts surrounding issues like hydraulic fracturing, water usage, recycling efforts, and sources of energy supply. We also need to make people more aware of the realities, like how dependent we are on conventional energy sources.

If we do this, people will realize that the oil and gas industry cannot be substituted out anytime soon. Renewable energy just won't get us where we need to go on its own.

And another focus of this public outreach should be how efficiently we produce consumer hydrocarbons.

The bottom line, from my perspective at least, is that educating both government and individuals is a key element in improving the perception of our business."

## **Are you optimistic or pessimistic about the future of the oil and gas industry? And please tell us why.**

"I'm optimistic. Over time, we know that economies grow. And economic growth is energy intensive. A recovering economy, both here in the U.S. and around the world, means more energy. And now we have new sources of energy here in U.S. with unconventional. So we can produce more oil and gas to satisfy our needs as we grow.

This adds to the tail wind for our business.

Now, it's true that we're early in the life cycle of exploiting these unconventional resources. We're about seven years into unconventional gas, and two years into unconventional oil. But I believe that we'll be exploiting these new resources for decades. There are big growth opportunities here.

In general, I see maturity in the oil business. We've established a new higher price level for crude. And the value associated with increasing the oil markets is significant. In other words, traditional resources are more mature, and therefore the effort to extract them is greater.

When we talk about natural gas, I think we're victims of our own success. In the near term, there's way too much natural gas supply coming from gas shale. We have too much gas in the near term, and this is going to keep prices depressed. There's also major scrutiny of hydraulic fracturing, and sometimes it feels like a witch-hunt.

But this doesn't get in the way of my over-arching optimism about the oil and gas industry's future. Not at all."

