



**RIVER  
STONE**

# **Current State of the Energy Industry**

## **SPE San Antonio Chapter**

**March 1, 2016**

- Likely Commodity Price Path
- Short and Mid Term Impact on Industry
- Other Implications

- Essentially an island commodity
- Not a pretty picture for producers
- Amount of shale gas is enormous relative to demand
- Marcellus, Utica, and Haynesville will be the low cost basins
- Marcellus current production 13 BCFD (20% of US total)
  - By 2018 Marcellus/Utica production likely 23 BCFD (33% of US total)
  - Recent Utica well test – 70 MMCFD
  - Haynesville is the new supply “sleeper”
  - This will reduce 2018+ wellhead netbacks for Rockies/Canada gas

- Sufficient shale supply for  $\pm 50$  years
- 2018-2020 LNG exports (~ 6 BCFD of 80 BCFD total market) will not fix oversupply situation
- \$2.50 - \$3.25 HH likely long term price

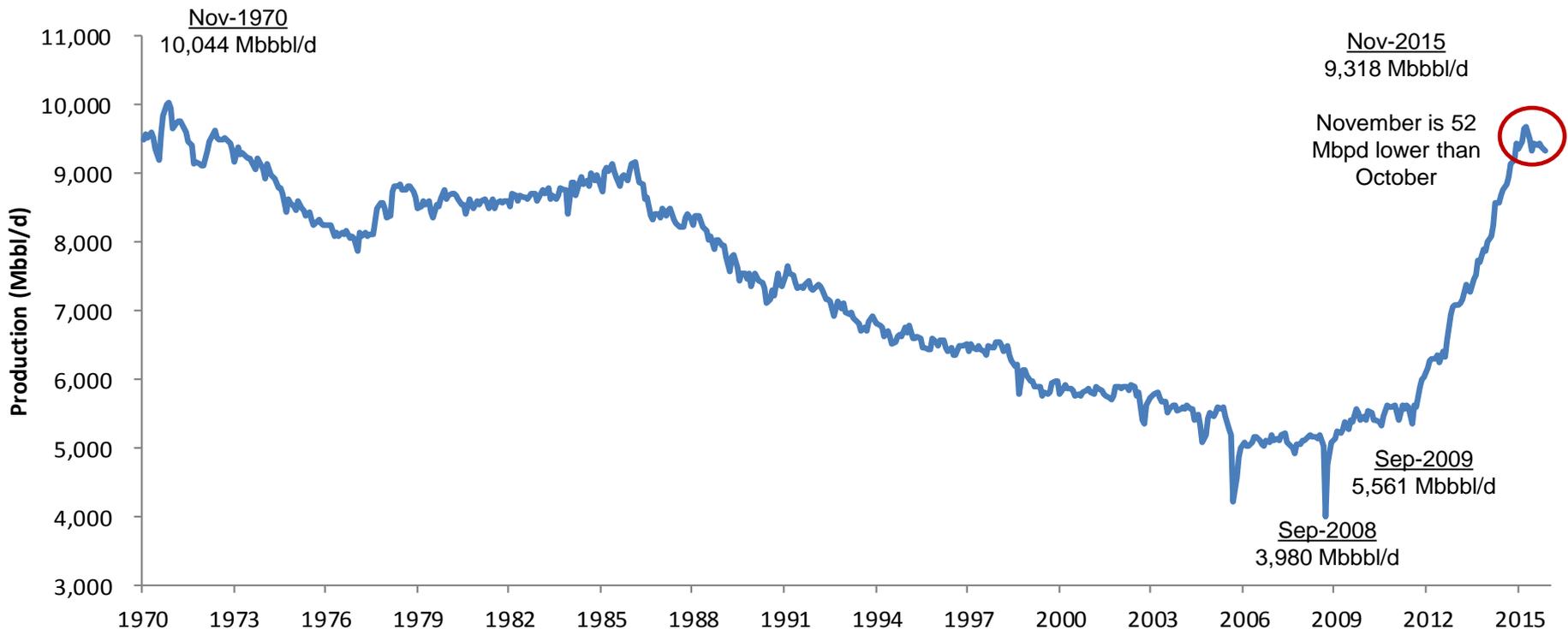
- Likely similar situation to gas – long term supply exceeds demand

- Totally different macro picture – not an island commodity
- Current global demand – 95 million BPD; grew 1.8 million BPD in 2015, likely 1.2 MBD in 2016
- At \$30 WTI, it's uneconomic to develop new oil almost anywhere in the world except in the Middle East
- At \$30 WTI, all global offshore development uneconomic except in Arabian Gulf
- US is the only significant place where global supply (was) growing

## US Crude Production Summary

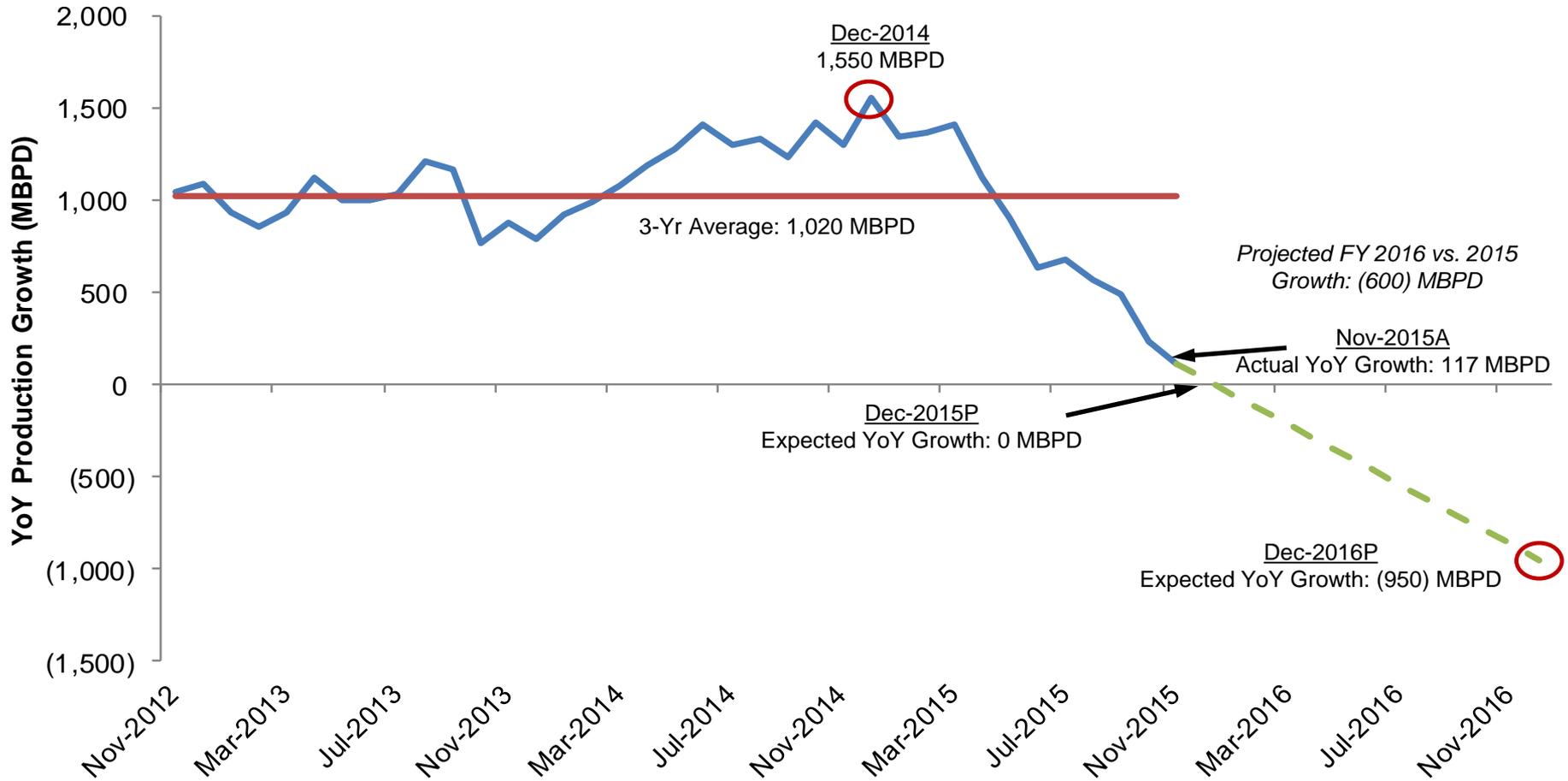
- Current Production: 9.3 MMbpd (November 2015)
- Year over Year Change: **+0.1 MMbpd** (November '15 vs. November '14)
- Data Release Date: January 2016

### US Crude Production by Month (Mbbbl/d)



# US Crude Year Over Year Production Growth: Nov. 2012 – Dec. 2016 (Projected)

US Oil YoY Production Growth (MBPD)



# Likely 2016 Oil Balance

- Global demand growing at 1.2 million BPD
  - US oil growth  $\sim(0.6)$  million BPD
  - Other non-OPEC  $\sim(0.3)$  million BPD
  - Rest of world oil growth  $\sim 0.5$  million BPD (Iran)
- Net 1.6 million BPD tighter market

## Other Global Factors

- US – Production will grow again if prices  $> \$60$
- Likely no shale oil outside North America for 5 – 10 years

- Prices will likely rise within 10 – 24 months
- Stable price is likely \$60-\$75
- Long Term \$90-\$100 prices unlikely
- Long Term below \$45 price unlikely

## Short and Mid Term Impact on Industry

- Biggest industry restructuring since 1986
- Every company is selling properties – who is buying?
- Highly leveraged E&P's will likely disappear
- Not sure how majors will react
- Service industry will become more concentrated

## Other Implications

- Biggest boost to overall economy in  $\pm 40$  years
  - Reindustrialization of parts of US
- US will be a long term major oil producer
  - Could reach 12 MMBOPD in 5 years
  - Foreign policy impact
  - Trade deficit benefits
- Long term domestic natural gas prices will be  $\sim 1/3$  of similar prices in Europe or Asia
  - Major uplift for chemicals industry and others