
Prudent Development

**Realizing the Potential of North America's Abundant
Natural Gas and Oil Resources**

**A Comprehensive Assessment to 2035
with Views through 2050**

**Energy Future Coalition Steering Committee
May 16, 2012**

National Petroleum Council (NPC)

Origins Continuation of WWII government / industry cooperation

Purpose Sole purpose of NPC is to advise U.S. Secretary of Energy and Executive Branch by conducting studies at their request

Organization A Federally chartered, self-funded Advisory Committee; Not an advocacy group, does not lobby

Membership Broad and balanced. Approximately 200 members from all segments of the oil and gas industries and many outside interests

Study Participants Diverse interests and expertise relating to the topic being addressed

Study Reports All NPC advice is provided in reports approved by its members and is available to the public. Reports can be viewed and downloaded at no cost from the NPC website – www.npc.org

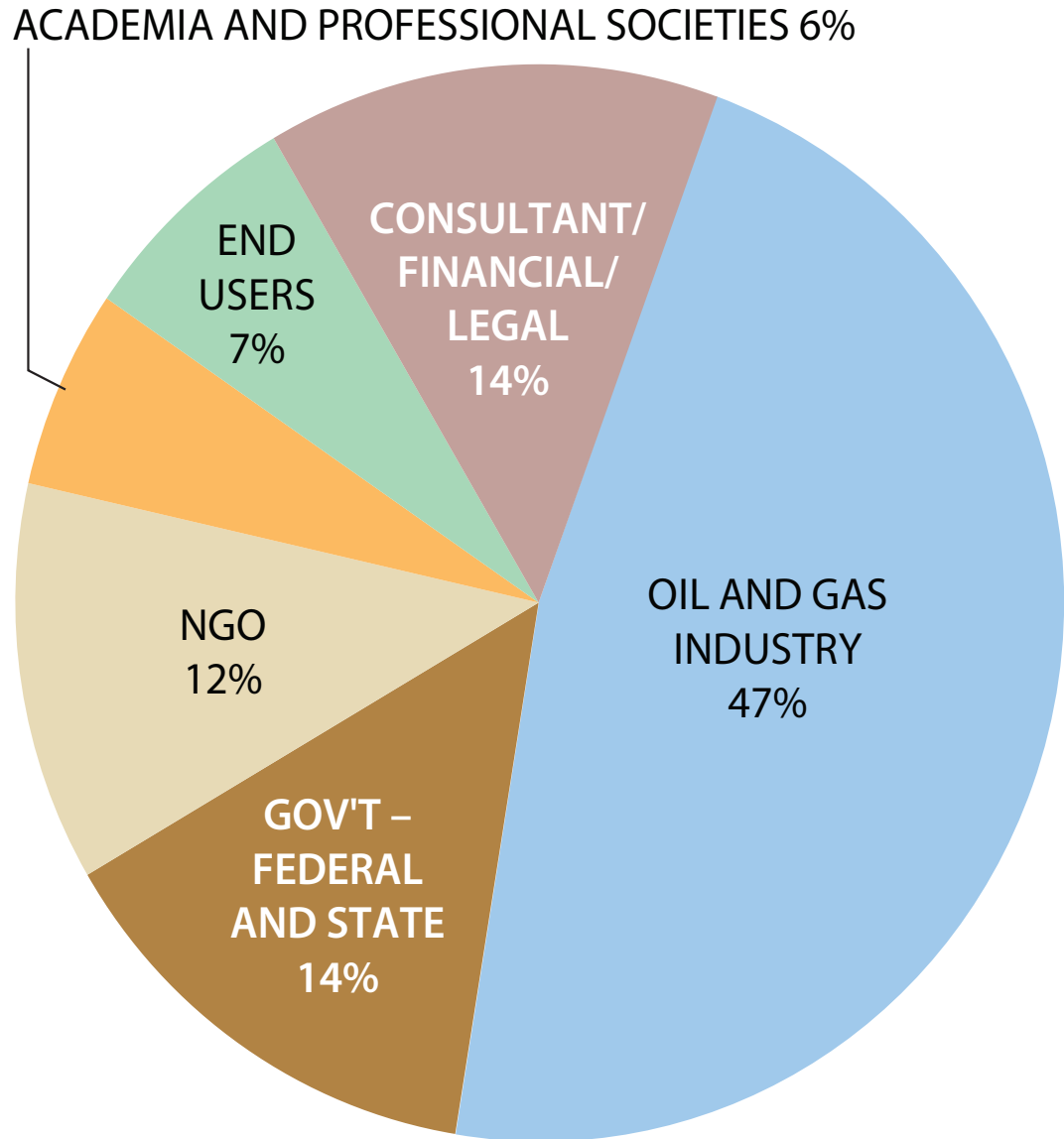
Prudent Development Study Objectives

- **Assess the N. American resource base – natural gas and oil**
 - Conventional
 - Unconventional
- **Describe the role of technology**
 - Environmental
 - Operational
- **Assess N. American supply and demand**
 - Through 2035
 - With a view to 2050
- **Identify the potential role of natural gas to lower emissions**
- **Meet national objectives: economic, environmental, security**

Diverse Study Participation

**Study Committee,
CSC,
Task Groups,
Subgroups**

**Over
400
Participants**



Four Major Findings

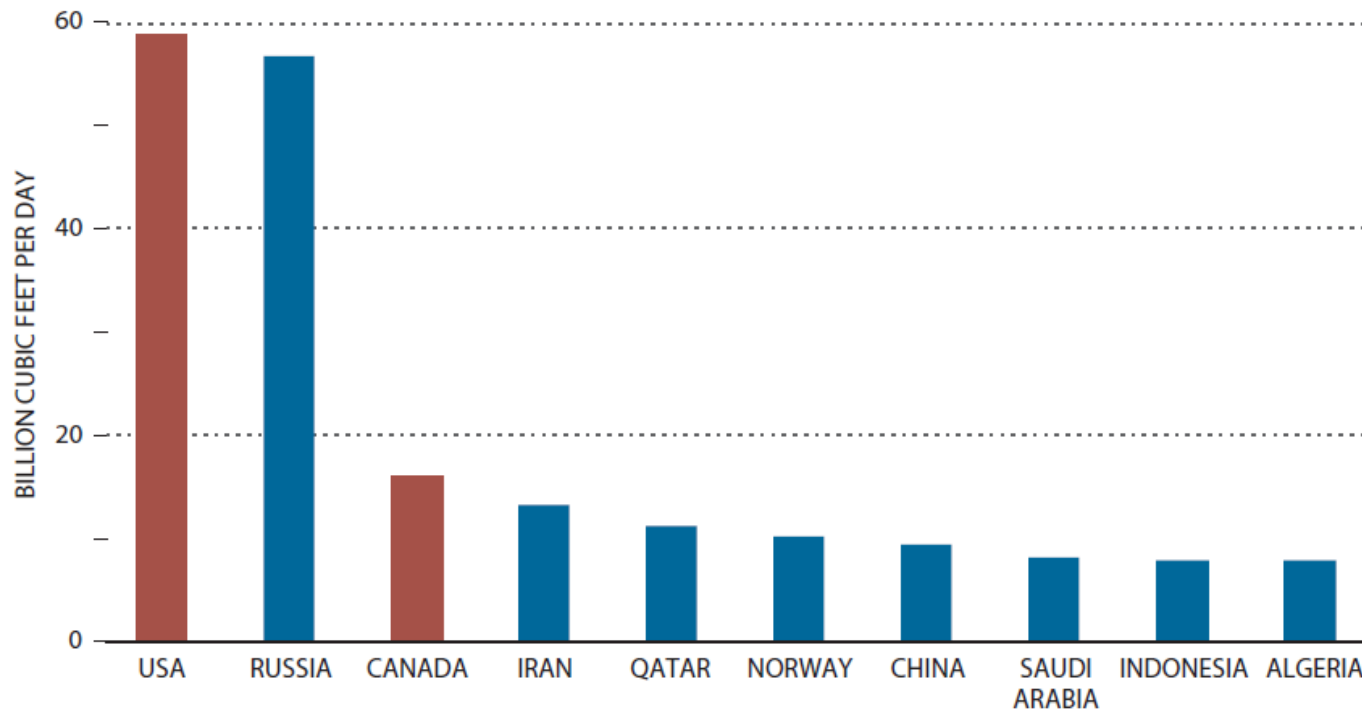
- **First, the potential supply of North American natural gas is far bigger than was thought even a few years ago**
- **Second – and perhaps surprising to many – America’s oil resources are also proving to be much larger than previously thought**
- **Third, we need these natural gas and oil resources even as efficiency reduces energy demand and alternatives become more economically available on a large scale**
- **Fourth, realizing the benefits of natural gas and oil depends on environmentally responsible development**

Core Strategies and Recommendations

- **Support prudent natural gas and oil resource development and regulation**
- **Better reflect environmental impacts in markets and fuel/technology choices**
- **Enhance the efficient use of energy**
- **Enhance the regulation of markets**
- **Support the development of intellectual capital and a skilled workforce**

North American global leadership in natural gas and oil production - a platform for development in natural gas...

Natural Gas Production 2010



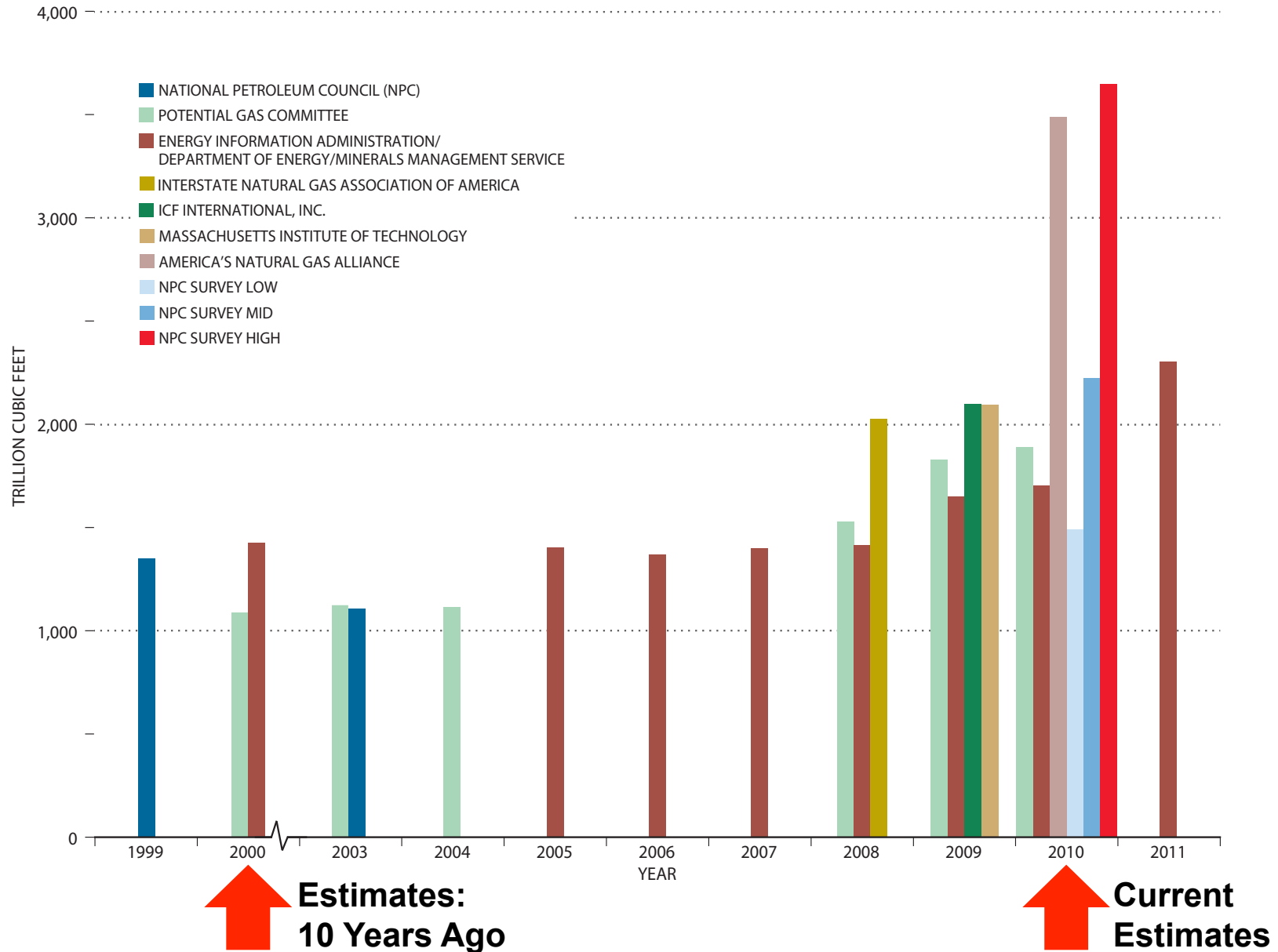
Source: BP Statistical Review of World Energy.

North America has a track record in developing and deploying key technology areas which have led to this position, including for natural gas:

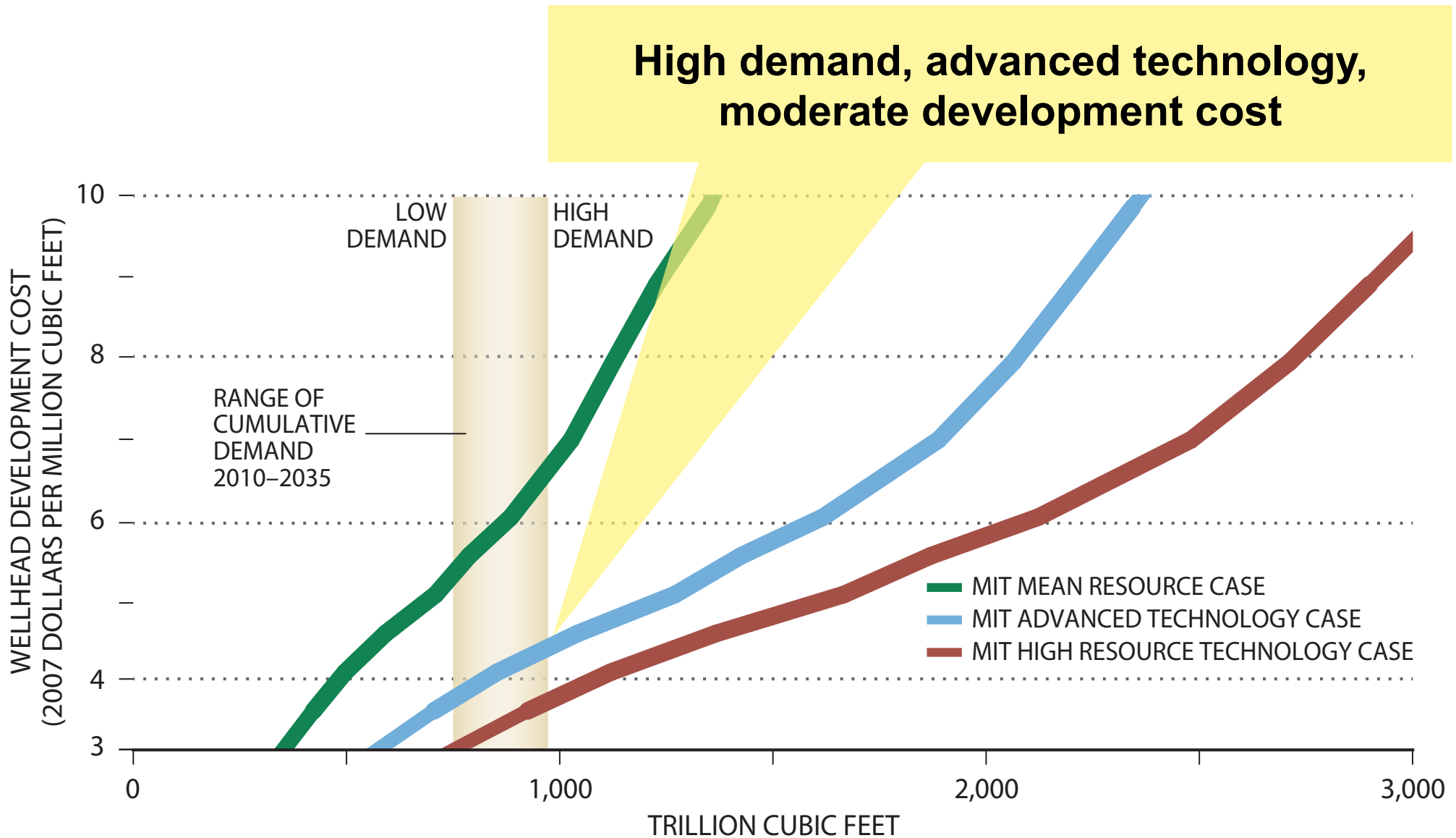
- offshore drilling, facilities and operations
- unconventional gas appraisal, development and production (CBM, tight gas, shale gas)
- horizontal drilling and multi-stage fracturing applied to source rock
- ...

N.A. Natural Gas Resource Estimates Transform Supply Outlook

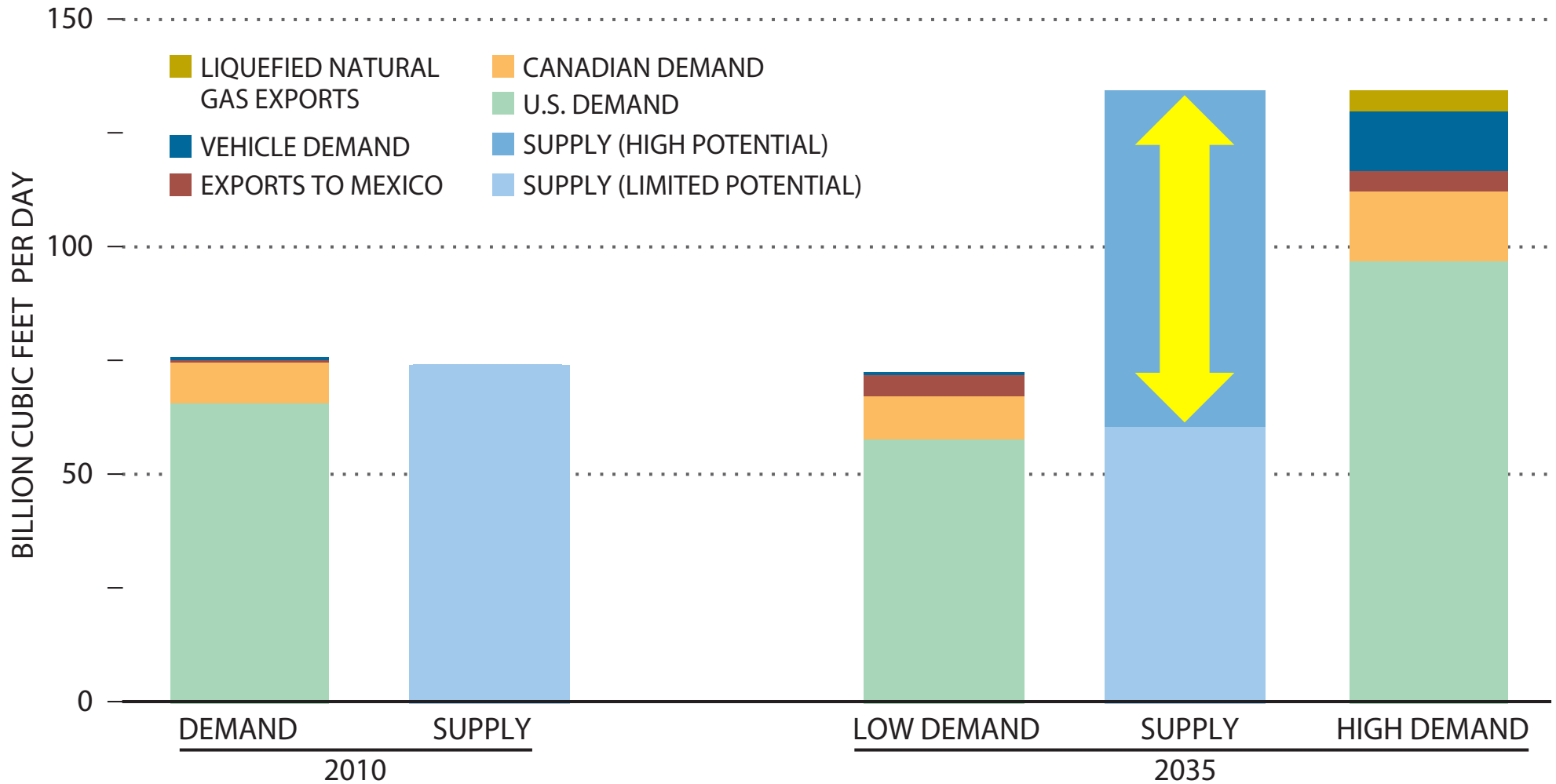
Recent Estimates of Natural Gas Resources



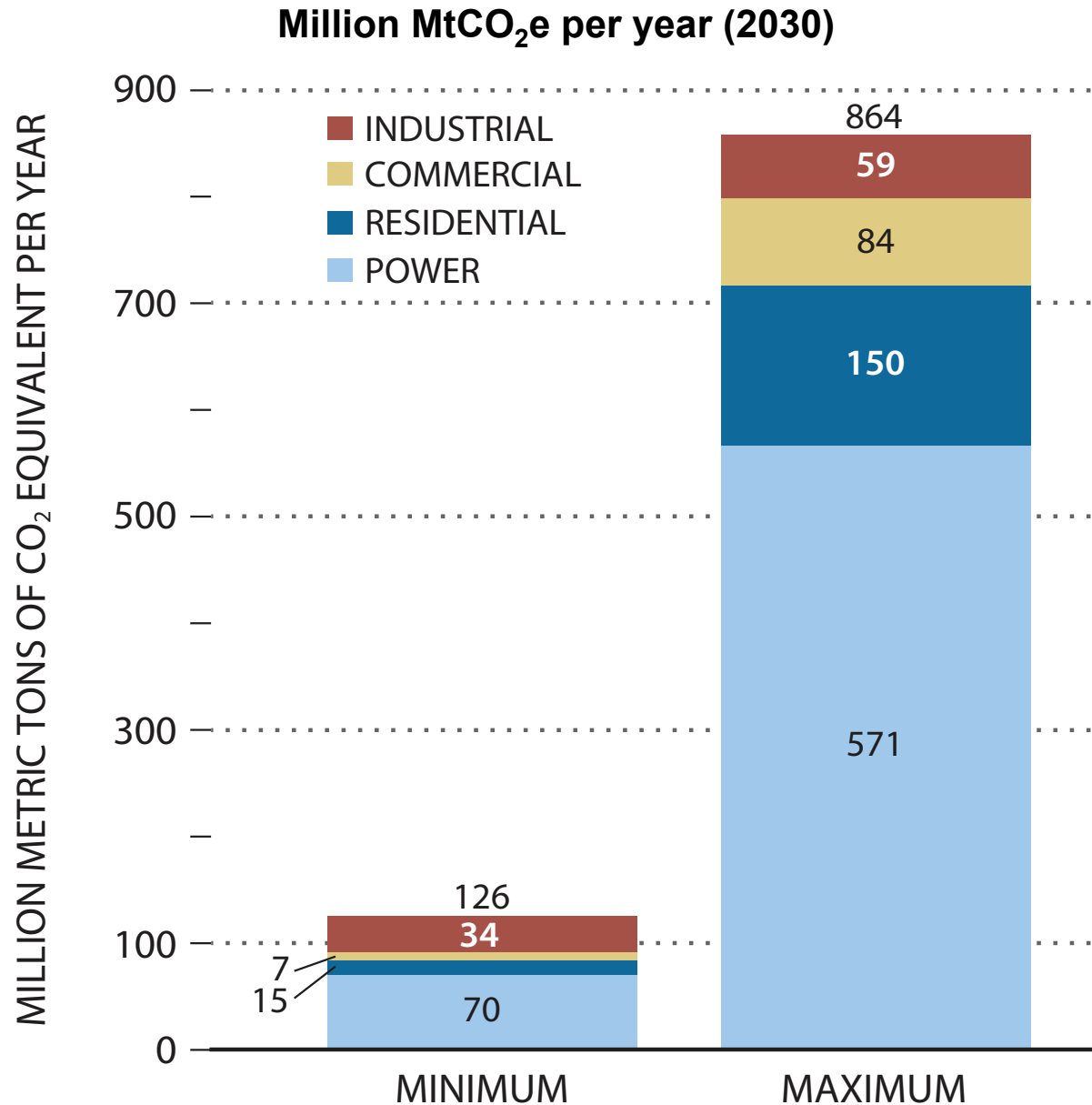
N.A. Gas Resources Have Potential to Supply the Market for Decades



North American Natural Gas Can Meet Even the Highest Potential Demand

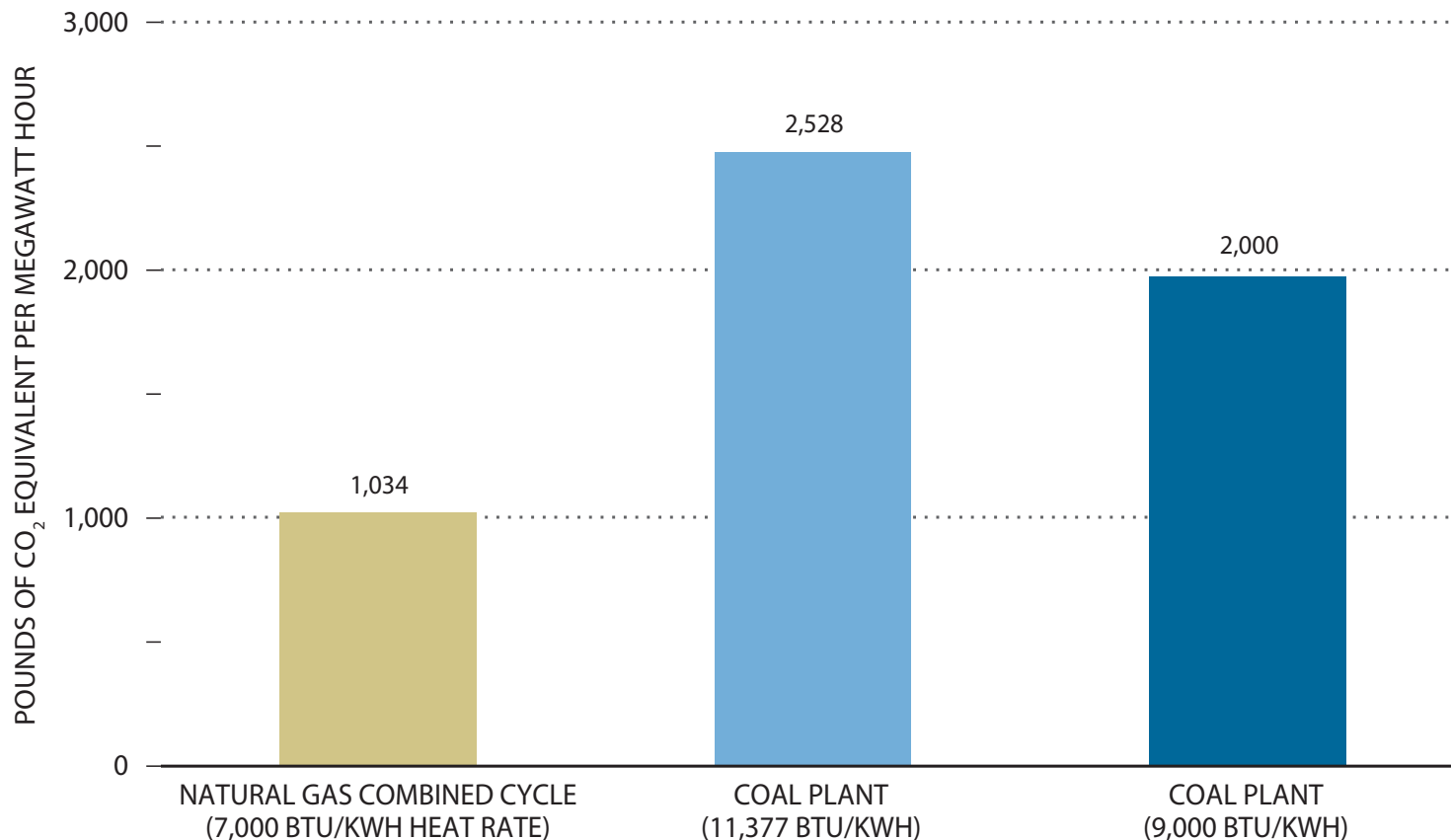


Range of Potential GHG Emissions Reductions in End-Use Sectors through Natural Gas Technologies



Natural Gas Has Lower GHG Emissions

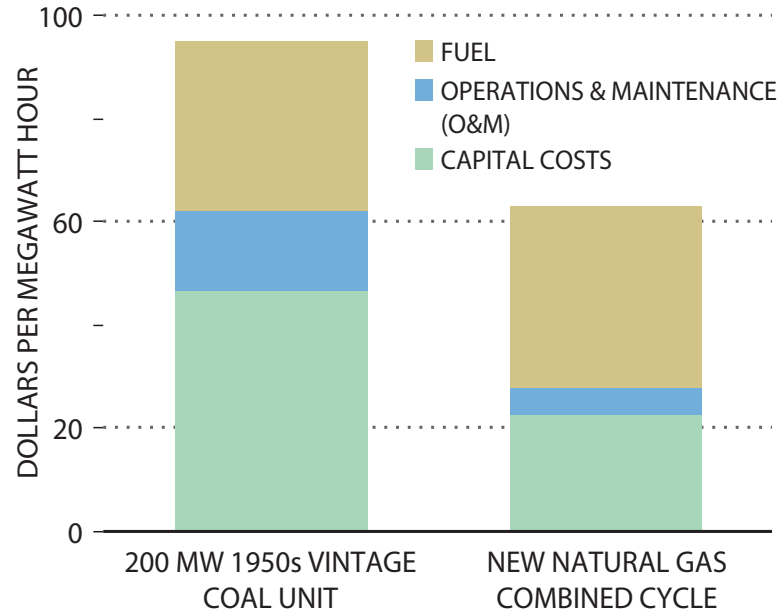
LCA GHG Emissions from Natural Gas-Fired Plants are 50-60% Lower than Existing Coal-Fired Plants



Gas Combined Cycle Plants have 99% Lower SO₂ and Hg Emissions and about 82% Lower NO_x Emissions Relative to Pulverized Coal Units

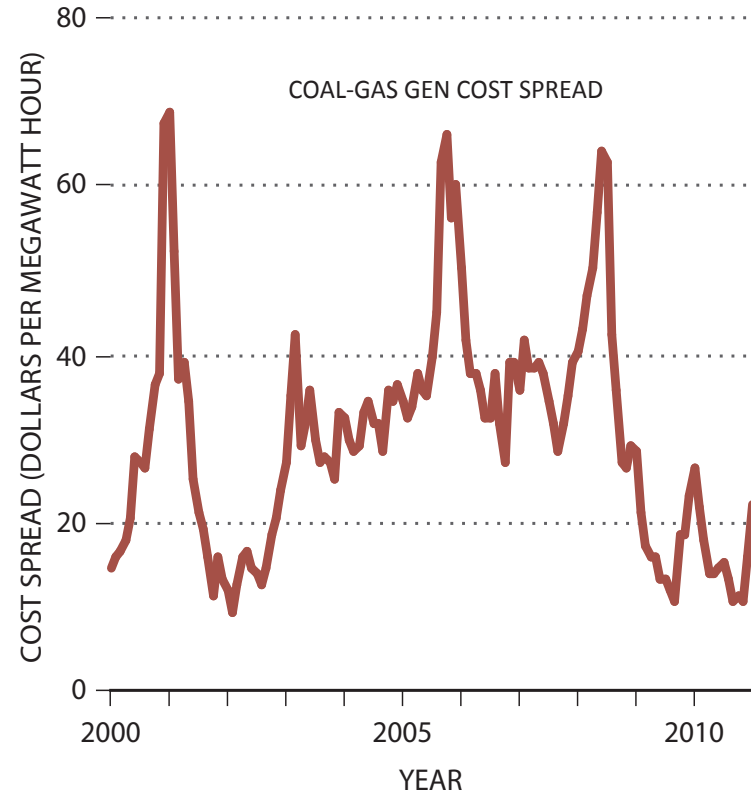
EPA non-GHG Rules – Coal Plant Retirement Decision

The spread between generating electricity from gas and coal has diminished.

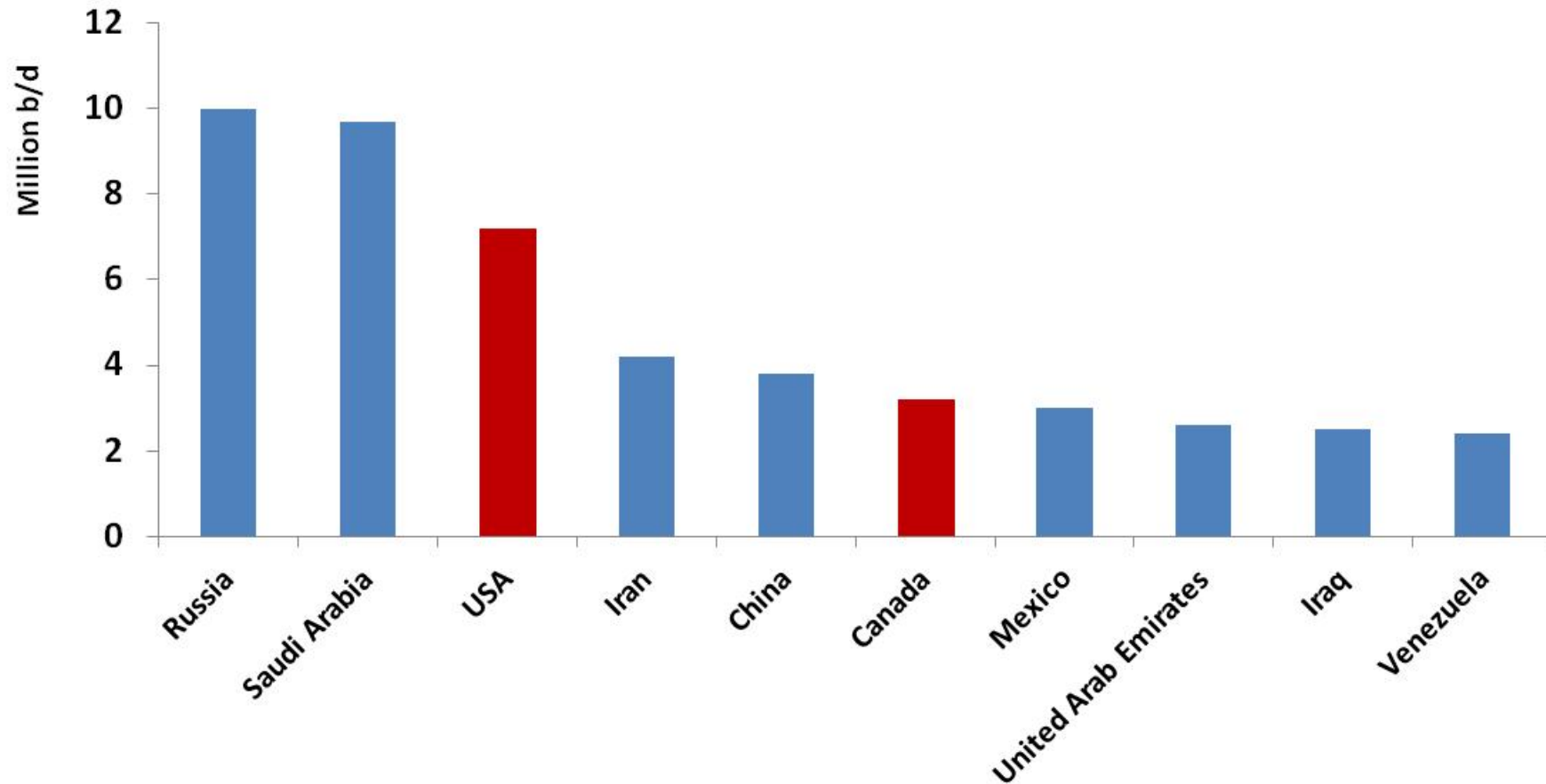


Assumptions:

1. Retrofit and new build capital cost and O&M assumptions are from Environmental Protection Agency estimates.
2. Coal combustion residual (CCR) capital cost is from industry estimates.
3. Uncontrolled coal unit (200 MW) requires flue gas desulfurization (FGD) + selective catalytic reduction (SCR) + CCR: Capital cost – ~\$1,450/kW; retrofit life – 15 years; 11,000 Btu/kWh heat rate; \$3/million Btu coal price.
4. Natural gas combined cycle: Capital cost – ~\$1,000/kW; life – 30 years; 7,000 Btu/kWh heat rate, \$5/million Btu gas price.



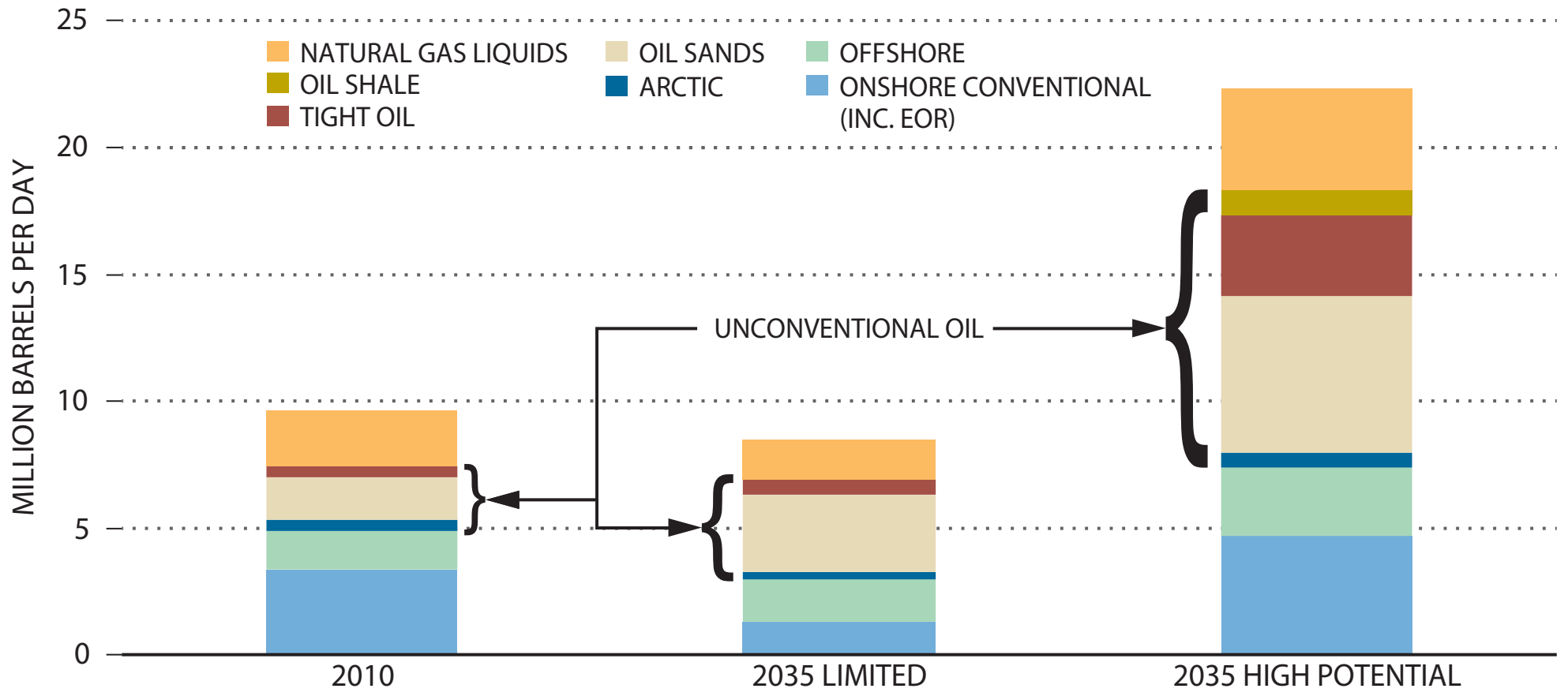
Top 10 Oil Producers



Source: BP Statistical Review of World Energy

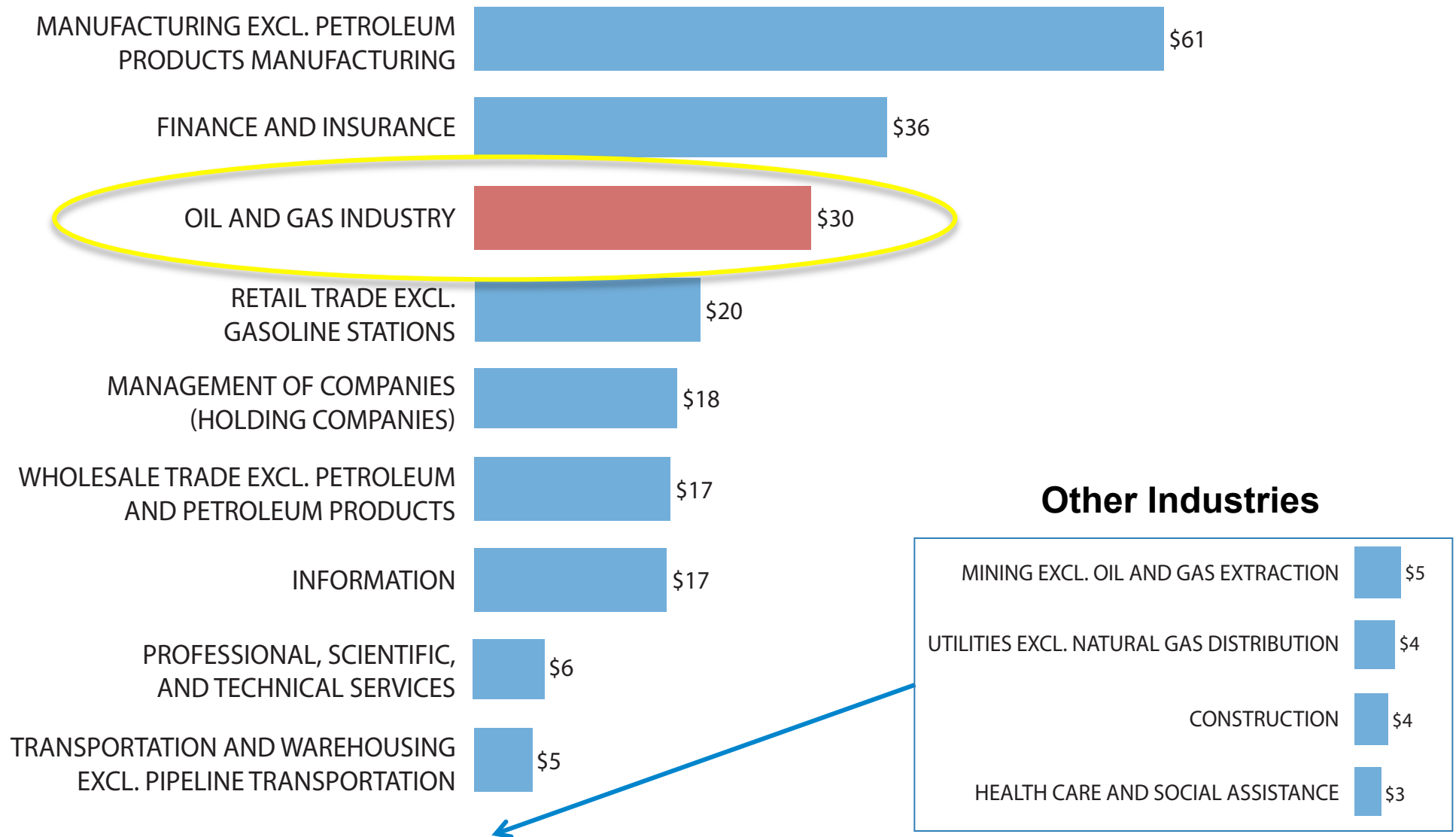
N.A. Oil Supply Has Upside Potential But Risk of Decline

High production opportunities enabled by access frameworks



Other Benefits: Industry Payments of Federal Corporate Income Taxes

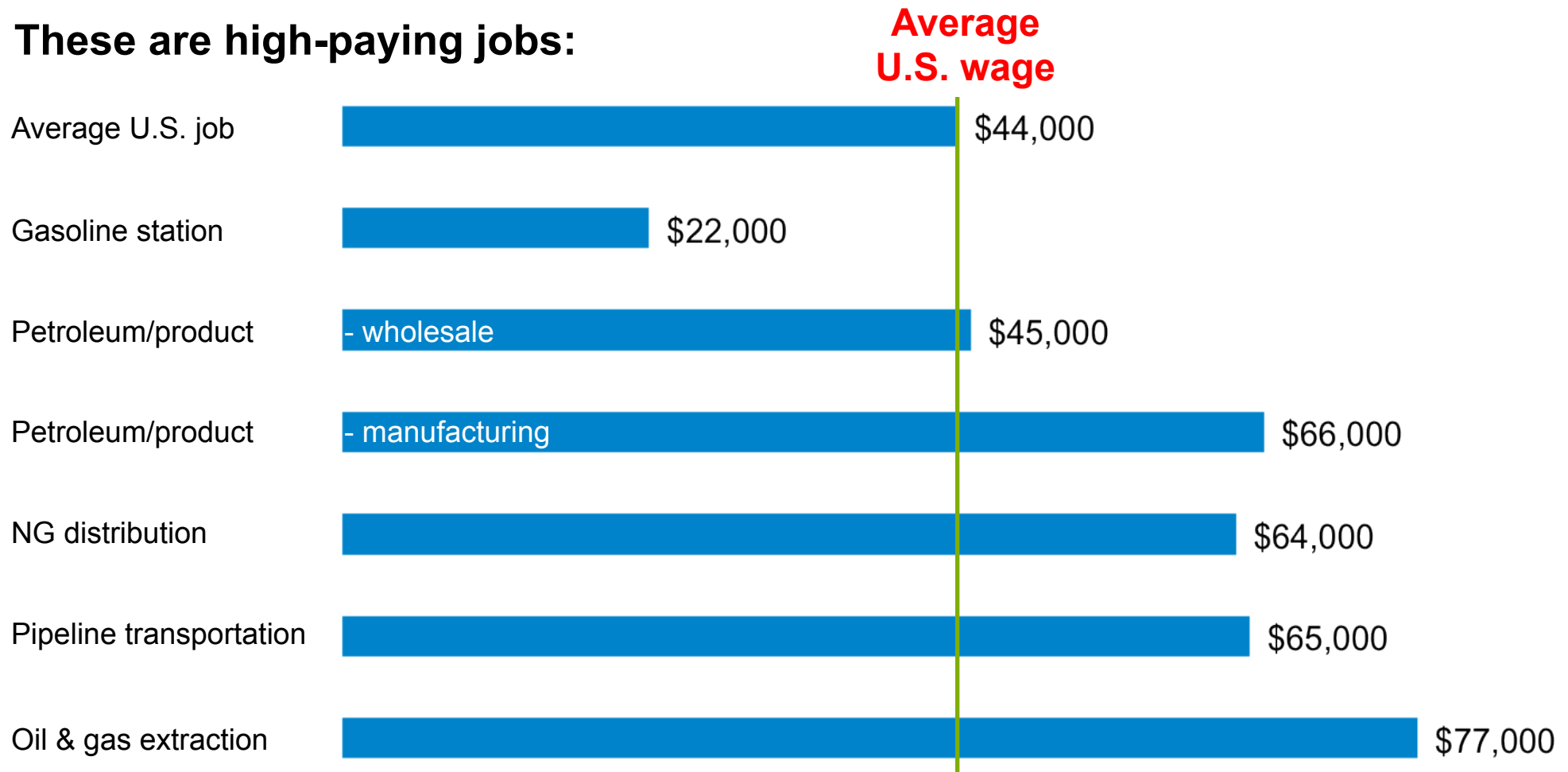
2008 Federal income taxes paid by corporations (IRS) (\$Billions)



Economic Benefits Also Flow From More Domestic Gas & Oil Development

- Direct jobs in the oil & gas industry: 2+ million
- Total direct/indirect jobs from oil & gas industry activity: 9+ million

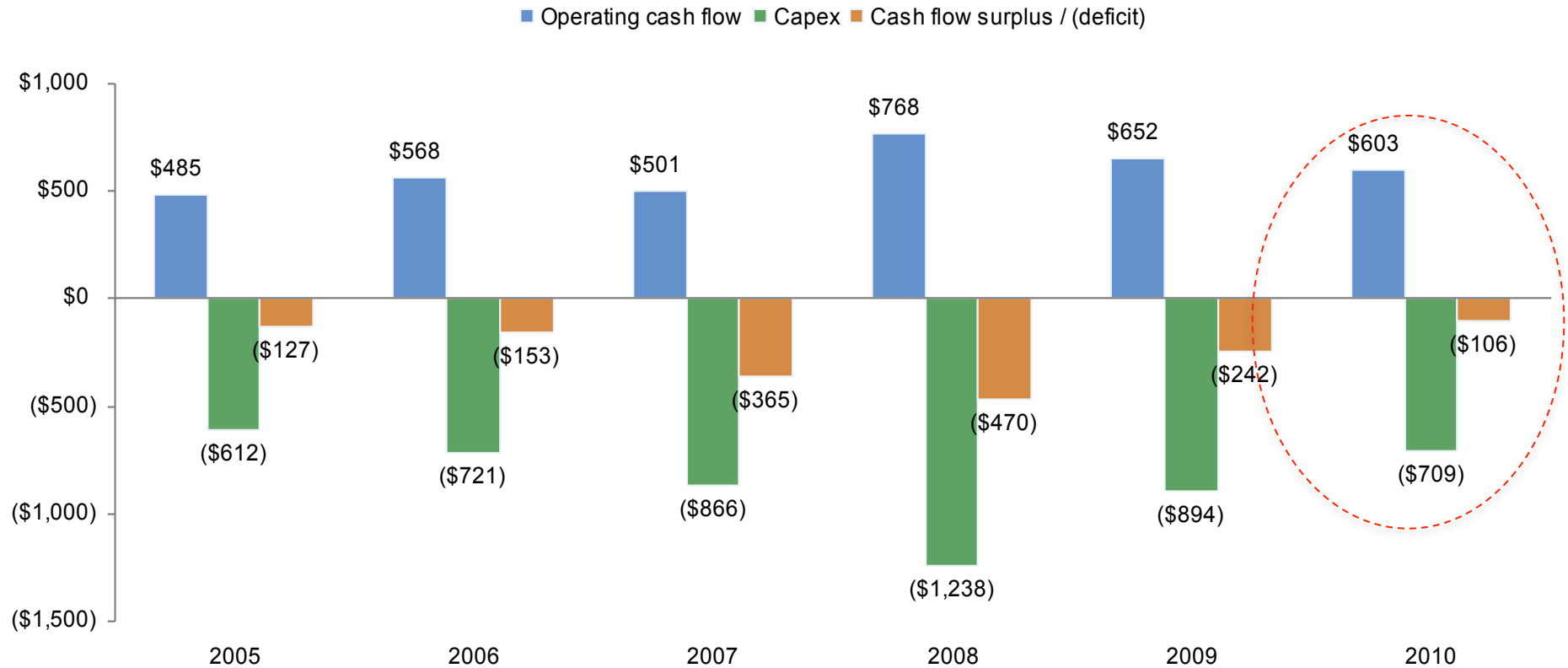
These are high-paying jobs:



Natural Gas And Oil Companies Reinvest Their Cash Flow To Grow Production And Reserves

Average cash flows for U.S. E&P companies with market cap from \$1-10 billion

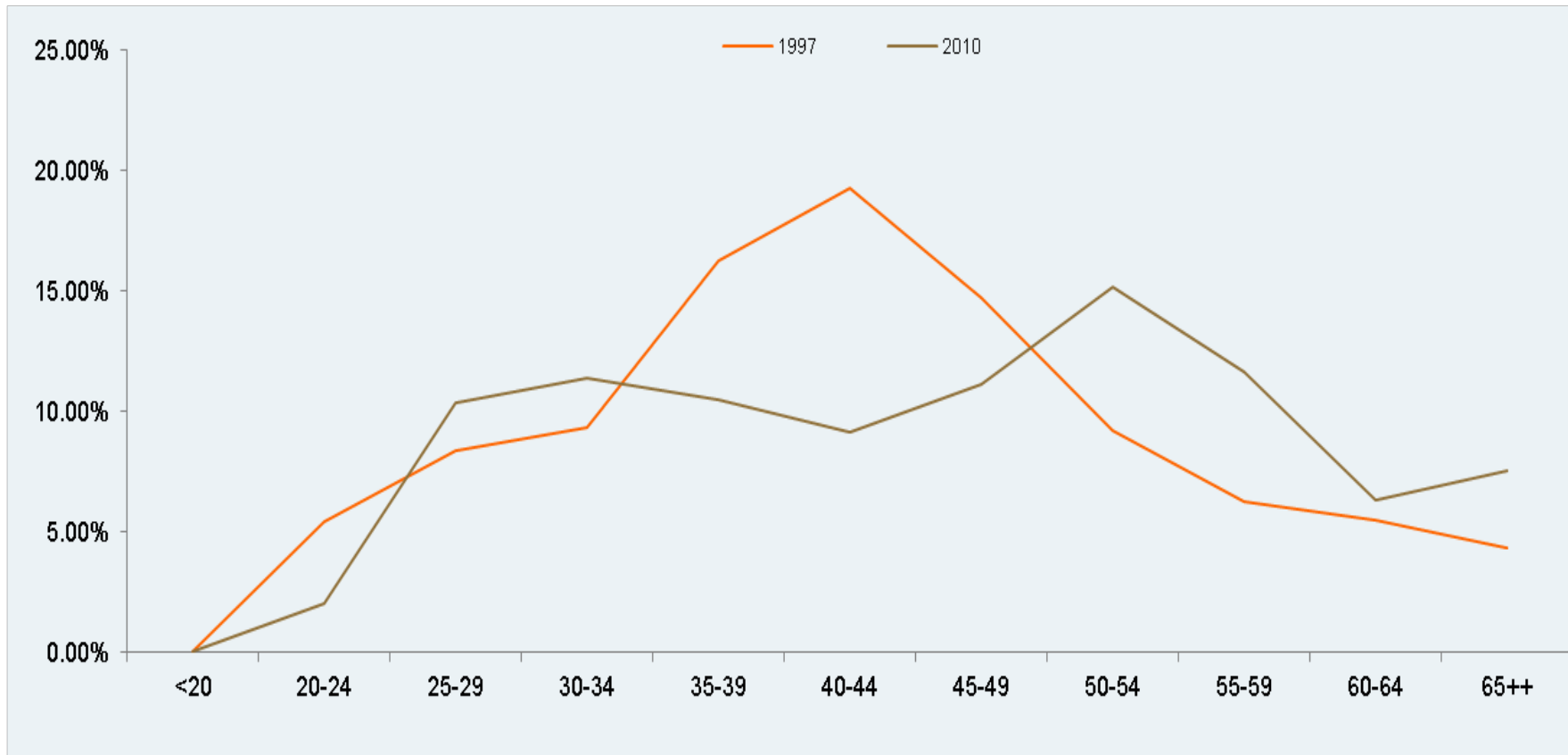
(Amounts in \$mm)



Many technical professionals are reaching retirement age

- The oldest Baby Boomers turn 65 this year, highlighting the demographic change under way in the natural gas and oil industry (and other industries)

Age distribution of Society of Petroleum Engineers membership



Prudent Development

In order for the U.S. to realize the benefits of substantial resource abundance, development must be done prudently.

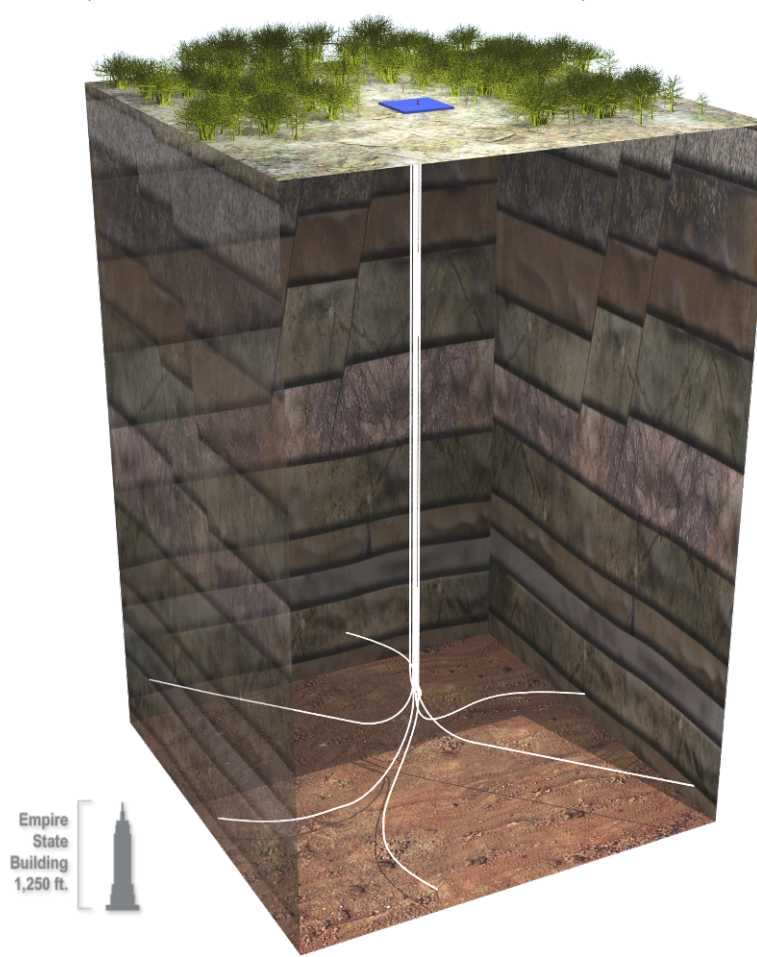
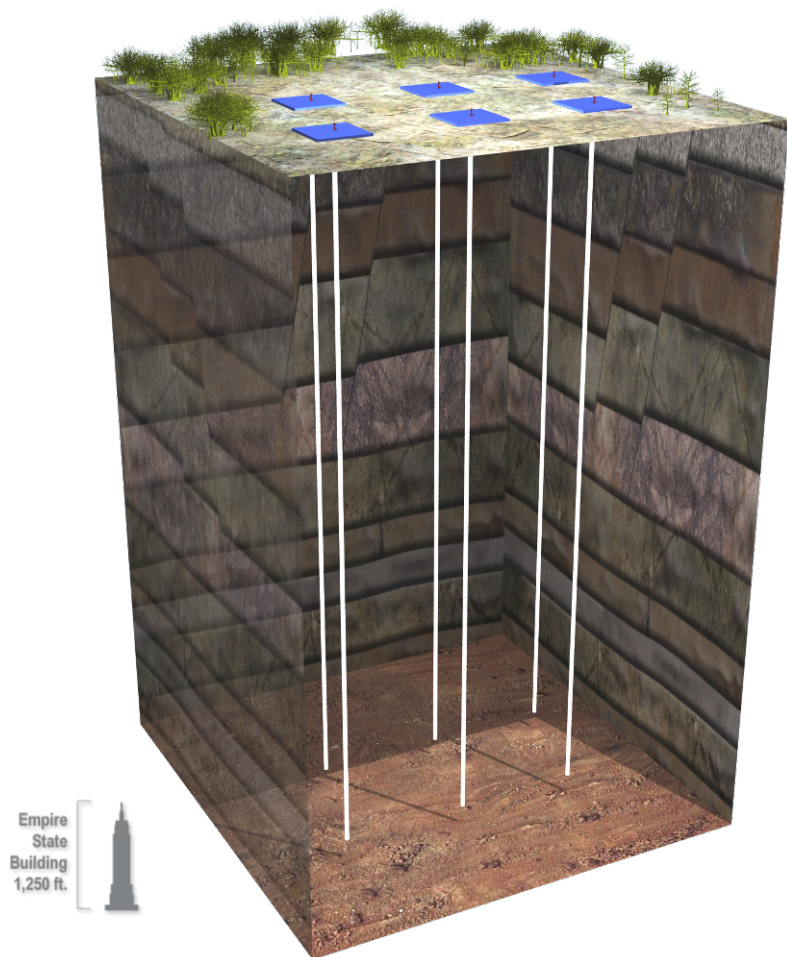
Prudent development is:

- Essential for public trust and confidence**
- Required for continued and expanded access**
- Fundamental for long term industry success**

Responsible Surface Use

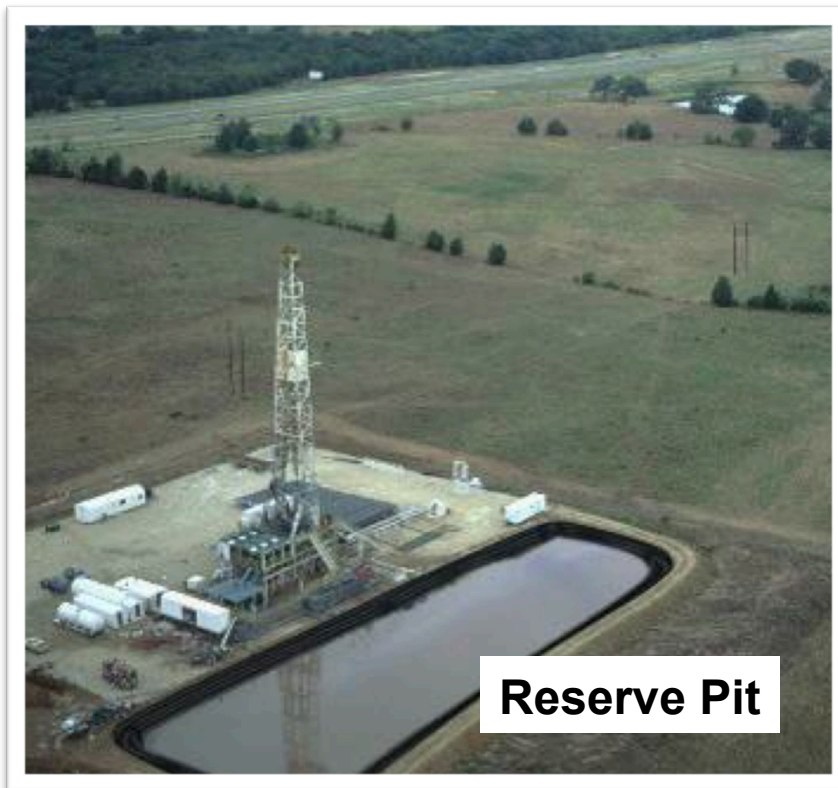
Traditional development with vertical wells requiring one pad site per well

Multi-well development minimizing surface use with 6-12 wells drilled from a single pad site (surface disturbance <2%)



Closed Loop Mud System

Open Loop System



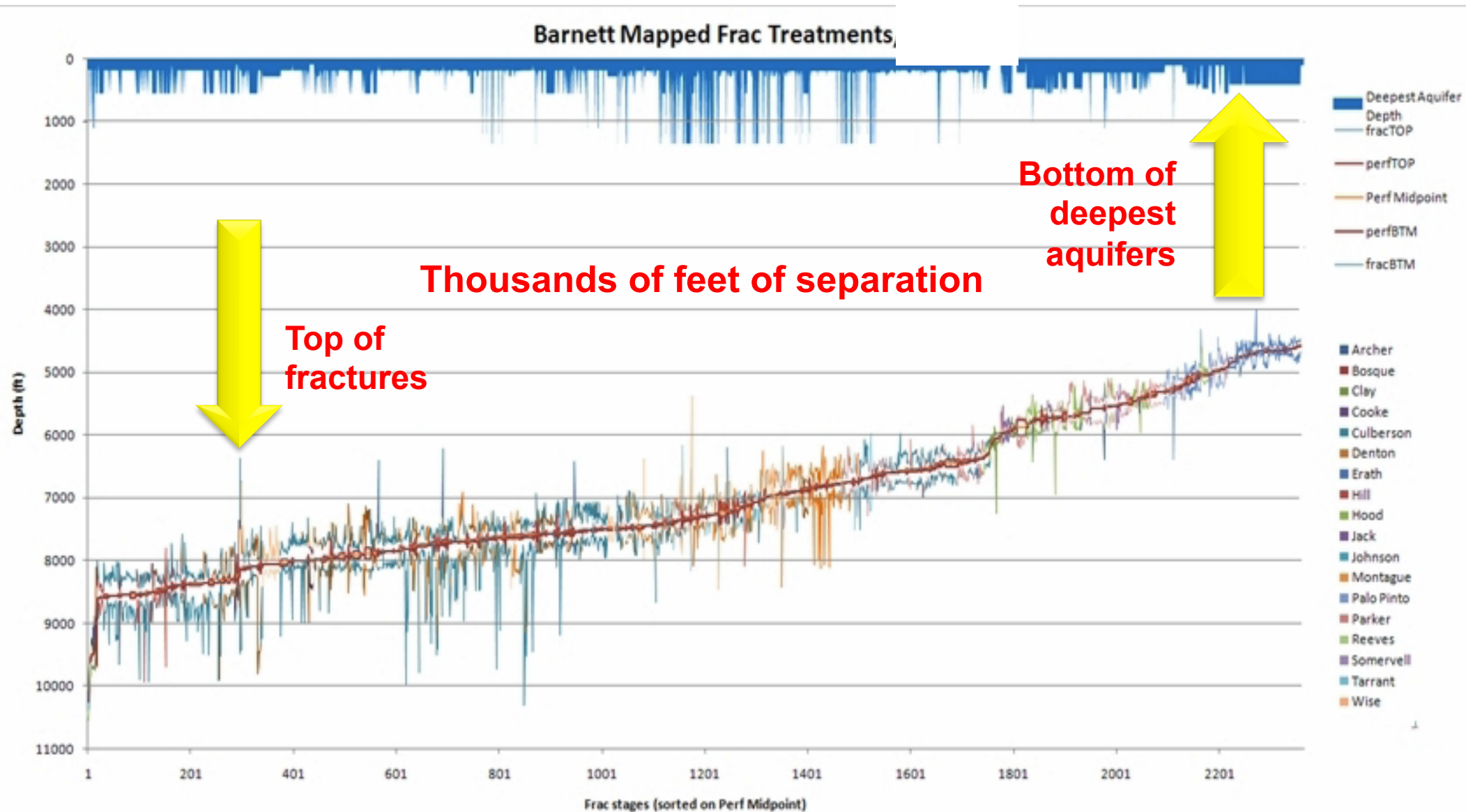
Captures cuttings and stores them in a lined reserve pit.

Closed Loop System



Captures cuttings without the need for a reserve pit. The contained cuttings can be recycled or safely transported to an approved landfill.

Technology Improves Understanding of Fracking Impacts



Fracture Height Determination – Microseismic

Key Recommendations: What is Needed

1. Support Prudent Development

- **Establish Regional Councils of Excellence to share effective environmental, health, and safety practices**
- **Adopt policies for more effective regulation of natural gas and oil reduction and operations**
- **Commit to and carry out community engagement**
- **Measure and reduce methane emissions**
- **By supporting prudent development, provide access to resources**

2. Better Reflect Environmental Impacts in Markets & Choices

- **Develop and use tools to better analyze and compare the full environmental impacts of fuels and technologies**
- **Consider options for internalizing the cost of carbon impacts into fuel prices**
- **Keep open technology options for reducing GHG emissions from gas in the long run**

3. Enhance the Efficient Use of Energy

- **Encourage mechanisms to support greater adoption of energy efficiency in buildings and appliances**
- **Remove barriers to utilities' promotion of efficiency and combined heat and power**

4. Enhance the Regulation of Markets

- **Allow utilities to effectively manage their natural gas price risk**
- **Harmonize interactions between natural gas and power markets**
- **Provide greater certainty in environmental regulations affecting the power sector**

5. Support Needed Talent and Know-How

- **Support intellectual capital and a skilled workforce:**
 - Increase the Number of Qualified Natural Gas and Oil Professionals

Summary

- **We have enormous oil and gas resources – of potential value and importance to the nation**
- **There's enough supply to support national objectives – including our economic, environmental and security interests**
- **The lynchpin to realizing these benefits is prudent development – We have to do this right.**
- **And our recommendations help us move toward these outcomes.**

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