Political and Economic Conditions Shaping America's Energy Future

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America's 10 year energy resurgence exhibits the difficulty of prediction. Unexpected global events, from the persistence of the U.S. fracking revolution to the impact (or lack thereof) of low natural gas prices on the business case for renewable exergy, have fundamentally transformed America's energy standing. Despite the notion that the only seemingly certain thing in this arena is uncertainty, there are tools available to separate fact from fiction. As America wades further into the global energy landscape, two forces will frame the future: politics and economics. Every stakeholder in the energy industry, from fossil fuels to renewable energy, from investors to energy companies, will respond to the environment these forces create. How will these disparate pieces of the American energy industry work together to navigate coming political and economic challenges? Read on to find out!

Economics

- **Fossil Fuels Continue Energy Market Domination:** As the frequent news coverage of the fossil fuel price plunge this past year shows, energy prices are constantly on top of Americans' minds. Specifically, oil and gas prices are the primary concern. The past year's price decreases are no temporary spectacle. As demand stays relatively constant, increased supply from all oil producing countries is virtually guaranteed: to maintain their revenue and market share, global producers cannot shut off their spigots.
- **Tech Keeps the Wells Flowing:** Aggregate global supply is certainly driving prices lower, but American production is the factor most driving downward pressure. This unprecedented development is occurring in part due to technological changes that drastically lower production costs. Examples include seismic technology and hydraulic drilling. Despite all the discussion and predictions about U.S. drillers slowing production with low prices, core drilling locations in the Bakken, Eagle Ford, and Permian basins remain economically viable, and technology is the reason.
- **The Importance of Hedging Strategies:** Beyond technology, the industry's hedging strategies provide another crucial economic driver. After years of boom and bust cycles, energy producers have finally developed sophisticated hedging strategies to guarantee significantly higher prices. Thanks to hedging there are many US producers selling their oil for $70 - $80 a barrel. In combination with technology, these two economic drivers explain why U.S. producers are expected to pump more oil in 2015 than they have in 45 years.

Politics

- **2016 Contenders Offer Contrasting Visions:** Presidential election coverage is ubiquitous these days, with many energy issues capturing voters' minds. The Keystone pipeline, the Iran deal, renewable energy credits, and the upcoming UN Summit in Paris have all garnered significant media attention. Predictably, Republicans and Democrats hold differing views on many of these items. A Democratic president will increase standards for air emissions and water quality as well as increase the nation's renewable energy production goals. By contrast, a Republican in the White House will approve the Keystone pipeline and reverse the Iran deal.
- **Either Way, Fossil Fuels Will Stay:** While the media may highlight divisions between Republicans and Democrats on these issues, their answer on the question of fossil fuel supply is the same: supply will not decrease. No matter the party, no American leader will undercut the support lower fossil fuel prices create. This effect stems not only from lower prices at the pump. For example, cheaper oil and gas has driven U.S. manufacturing costs so low that many "American made" goods are actually cheaper than goods manufactured in China.
- **An Overabundant Fuel Supply Will Lead to Exports:** Earlier this year, the Commerce Department granted several licenses to export US crude oil. This is just the beginning as a proposed law to formally lift the 40 year ban on oil exports is moving quickly through the U.S. Congress. Although Democrats have met attempts to lift the crude oil export ban with stiff resistance, there are signs on the horizon that this will likely change. While President Obama may threaten to veto the bill, his own Administration found the export ban may be inflating oil prices. It is clear the momentum for US oil exports will continue regardless of politics.

This post was adapted from a speech Paul gave at the **40th Annual Interarab Cambist Association (ICA) Conference** that took place from October 22-24 at the JW Marriot in Cairo, Egypt. Founded in Beirut, Lebanon in 1972 the ICA is a non-lucrative professional association for members from 14 North

African and Middle Eastern countries. Members are engaged in financial trading and sales representing foreign exchange, interest rate products, equities, commodities among others. The 2015 Conference brought together regional and international speakers to share insights on the state of the global economy. Paul is the former Chief Operating Officer at the **US Department of Energy**, a current attorney with **Mintz Levin**, and a contributor to our Energy Technology Matters blog.

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