

Energy Security

An Interview with T. Boone Pickens, Founder, BP Capital



T. Boone Pickens at his desk

EDITORS' NOTE T. Boone Pickens left the company he founded, Mesa Petroleum, in 1996 and formed BP Capital, an energy focused hedge fund dealing in both commodities and equities. He is the architect of the Pickens Plan to enhance U.S. energy security through an expanded use of renewables in power generation and by increasing the use of America's abundant supply of lower-cost, cleaner-burning natural gas in heavy duty transportation applications to replace OPEC oil/diesel/gasoline. He argues that dependency is a key threat to the U.S. economy and national security.

COMPANY BRIEF BPC is a Commodity Pool Operator and General Partner for the BP Capital Energy Fund, L.P. ("the Energy Fund"), and TBP is a Commodity Pool Operator and General Partner of BP Capital Management, L.P., the General Partner of BP Capital Energy Equity Fund II, L.P. ("the Equity Fund"). Collectively, TBP and BPC are referred to as BP Capital. BPC

and TBP are private investment firms that focus on investments in energy futures and stocks of public companies in various energy sectors and energy dependent industries.

How has the Pickens Plan progressed since you announced it in July 2008 and did you hope it would be further along by now?

President Obama recently outlined his energy plan for America, which pretty much tracks the Pickens Plan I laid out in July 2008. That plan calls for expanding the use of domestic natural gas in heavy duty transportation, replacing OPEC oil/diesel/gasoline, and more renewables for power generation. That means more wind and solar energy. All of that is in the President's energy blueprint for America. It only took me three-and-a-half years. I guess that calls my salesmanship credentials into question.

Now the ball is in Washington's court. When it comes to an energy plan for America, we have to move beyond vague generalities

and get into specifics. This is an important opportunity to create American jobs, with cheap American energy. We're fools if we don't take advantage of it.

We have never had an energy plan for the country. In 1973, Richard Nixon said that by the end of the decade, we would not be importing any oil. At the time, we imported 24 percent; at the end of the decade, we were importing 28 percent, and it's now 65 percent.

Our bill has been introduced in the House as 1380 and in the Senate as 1863. The Nat Gas part of it is simple – it's just getting heavy duty trucks to use natural gas. Someone said if it's such a good idea, why don't you get all 250 million vehicles in America to use it? But I just want to start with the eight million trucks and fleet vehicles on our roads. If the fuel is that good, then we have a perfect model to see what we can do with it. Every day, 70 percent of all the oil in the world goes to transportation fuel. Around the world, there are 13 million natural gas vehicles and only 130,000 in the U.S. So we have so much room to grow. The fuel is \$2 a gallon cheaper than diesel so that's going to drive things in that direction anyway. I think we could get there with the heavy duty trucks in five years once we get started because, in 1972, trucks started to leave gasoline for diesel because it was cheaper – that conversion only took five years. But without government pointing the way and providing leadership, it will take twice that long.

Do you wonder what, if both sides can't get together on this issue, that implies about our government in a broader sense?

The energy deal is an easy nonpartisan deal for the United States, so if you can't get it passed in three and a half years, that certainly tells you something.

In the U.S., natural gas sells for \$3.58 – in the Middle East it's \$16 to \$18, and in Europe it's \$13. So we are the cheapest natural gas in the world, which causes businesses to come here and use the natural gas.

Who is against us? The special interests are at it again. That includes those who profit from cheap natural gas – like the chemical companies – or those with refining interests. The Koch brothers in Wichita, Kansas, are a good example. They refine 61,000 barrels of OPEC oil each day at their Corpus Christi refinery, and they use

natural gas in almost all their businesses, from chemicals to fertilizer. They say we should let the free market work in energy and not pick winners and losers. Seriously, you think OPEC is a free market?

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This plan is going to happen and it's going to create thousands of jobs. The House Bill 1380 showed we would create 400,000 direct and indirect jobs at a cost of about \$10,000 each. President Obama not long ago outlined a jobs program that would create new jobs for \$384,000 each. The NAT GAS Act is an amazing opportunity. We need to move it forward

Has it been difficult to get people to understand your expertise in this area and why they should take your plan seriously?

It's very simple. I spoke to Bob Tyrrell's group at *The American Spectator* and I asked if anyone wanted to debate that I'm an energy expert. I never had one person who would take me on.

With 60 years in this industry, I fully understand it. After I make a speech, I ask people what their plan is for energy for America. They tell me they don't have their own plan, but that they don't like mine. And I say, if you don't have a plan, you're going to get foreign oil – no plan equals foreign oil. Is that what you want? They say, no. To create change, you have to prove you have the resources to replace that foreign oil, which is easy: we have more natural gas in America than anywhere else in the world.

Will there also need to be nuclear, solar, or wind components? Will the focus need to be broad in order to attain that independence?

The cost of solar is the highest. On a megawatt-hour basis, solar is \$202 a megawatt hour; biomass is \$140; nuclear is \$125; geothermal is \$100; wind is \$80; coal is \$73; and natural gas is \$62.

I'm for developing everything in America and I'd use nuclear, but there is no plan for that.

If natural gas moves up from \$4 today to \$6, that would bring wind into range; you could do wind at \$6. But the bottom line is, we

need to use our own resources and stop buying OPEC oil because when you pay OPEC, you are paying the Taliban.

There is a great deal of excitement over the opportunity for extracting gas from the shale in Pennsylvania, but there are also a lot of concerns surrounding the fracking process required to extract it. What should be done to help mitigate those concerns?

We've fracked upwards of 800,000 wells in the United States, but nobody from Pennsylvania that I know of has gone to Texas, Oklahoma, or New Mexico and checked out the records of fracking in those areas.

But there are over 200 rigs running in Pennsylvania and they have one of the best economies in the U.S., and they're attracting more businesses there because of cheap natural gas. The industry has a great track record in fracking.

The biggest freshwater aquifer in North America extends from Midland, Texas to South Dakota – it goes across eight states. There have been 100,000 wells drilled through that aquifer and down to a producing zone where fracturing is used, and there is no history of the aquifer being damaged.

I went to work for Phillips in 1951. In 1953, I saw my first frack job. I've never seen one that damaged the aquifer, including those wells that were drilled through that Ogallala Aquifer.

They were drilling a well on my ranch that was to be fracked and somebody asked if I would go to check up on it. I said, no, they're not going to mess anything up – where they're fracking is two miles below the aquifer and they cemented the aquifer off. These concerns are silly.

There is a perception that the oil companies may not desire to be part of the solution. Should more be done to achieve a better understanding of the support that the oil companies have given to this plan?

The Obama Administration is calling for leadership and innovation and that is what the energy industry has delivered. But that story isn't understood. Eighty percent of Exxon's revenues come from offshore; they're not domestic – they're an international oil company. They work for shareholders – not for the U.S. But when Obama speaks of oil companies, he says, they have made enough money. I wish somebody would ask him what he means. The oil price is set by OPEC. The U.S. doesn't set the oil price – we accept it and import it.

A problem well stated is a problem half solved. You can state the problem with intelligent people and work out a plan. It may take longer than it should, but when you fix it, you are going to change the economy in America.

There are many people in political office with no energy experience. Do they really understand the issues? Is it as simple as you say?

It is. It's an opportunity to build the economy back. The first Industrial Revolution in America was accomplished on the back of cheap energy and cheap labor. Now you have a chance to come back on the back of cheap energy again and rebuild the economy. It's just that simple.

If you look back to 2008 and then to where we are today, are you optimistic that this issue might finally gain some traction?

Yes, because the Senate and the House now have a plan in front of them – they believe what I've told them is true and they know something needs to be done and that it's up to them, although they aren't doing nearly enough.

Is it tough not to throw your arms up when you look at how silly some of the discussion has become?

I'm 83 and I'd like to push it off to someone else, but I keep finding myself as the one that paddles up and down the hallways in Washington – I talk to all the Chairmen and anyone who wants to listen. They're always respectful.

At what point will you say all of this work and effort has finally been a success?

I'll claim victory if they pass this bill and get started on getting the heavy duty vehicles to natural gas, and I'll go from there. Since I did the Pickens Plan, I have flown my airplane 600 hours a year. I have done 40 town hall meetings. I know what the American people think and they are concerned that we import oil from the enemy.

I have 1,700,000 people signed up with me. When the Senate dropped their bill, we went to our army and said, contact your Congressmen and Senators and tell them this has to be done, and they got out 40,000 faxes. So we have built a lot of support.

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How do you maintain your energy and your passion?

I have to play at that level to convince everyone that I'm serious about what I'm doing. In Washington, they view me as a patriotic guy who has a good idea that has nothing to do with politics.

I never served in the military, but the Pickens have an excellent military record and I knew I would get a chance to serve in some capacity. For years, I had watched all these candidates say, elect me and we'll be energy independent. I thought, it's time for me to do something and I had the money to do it. So I hit the road and spent \$85 million, and I haven't lost enthusiasm for it because I have a plan. ●