

The Energy World According to Matt Simmons

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Who is Matt Simmons?

- Founder (and now Chairman Emeritus) of Simmons & Company
 - “Founded in 1974, the firm has acted as financial advisor in nearly \$140* billion of transactions” (Simmons Co. web site)
- Energy advisor to several US Presidents
- ~30 major speeches in the last year (posted on Simmons Co web site)
- Author of Twilight in the Desert: The Coming Saudi Oil Shock and the World Economy
 - “His examination of oil reserve decline rates helped raise awareness of the unreliability of Middle East oil reserves as the published reports have never been verified.” (Wikipedia)

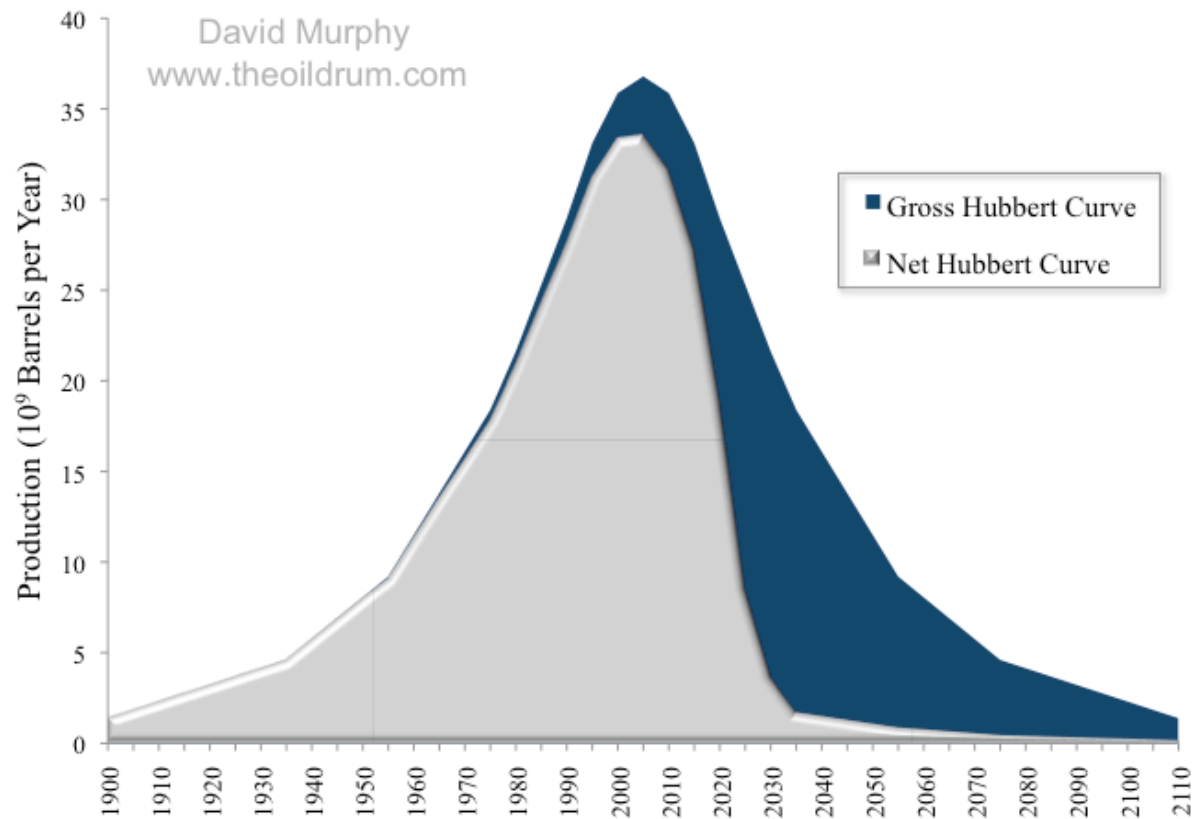


Matt Simmons' Message

1. Production decline rates in existing oil and gas fields imply need for huge investments
2. Lots of unknowns make oil (and gas) investment risky
 - Key market player Saudi Arabia keeps its secrets
 - Even domestic plays have many unknowns
3. In the current environment, the investment to just maintain production is not happening

Lack of investment compounds the effects of resources depletion making oil decline in the immediate future almost inevitable

Net Energy Hubbert Curve



Summary Comments

- Simmons' contribution is understanding the dynamics of the oil and gas industry
 - His conclusion is that industry dynamics imply declining oil production, even if the resource base were able to support growth
- Climate change and other externalities are not part of of Simmons' analysis
- Our view:
 - High prices to consumers would encourage rational choices to use less oil (perhaps using more gas in the short term)
 - Low prices and other disincentives cause producers to produce less now,
 - ...but allow graceful adaptation in the future