The Benefits of U.S. Crude Exports

IPAA Annual Meeting
Ryan Lance, Chief Executive Officer
November 13, 2014
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Substantial Growth in Total U.S. Oil Production Projected

U.S. Crude, Condensate and Natural Gas Liquids Production
U.S. Department of Energy Forecast

Liquids production has returned to levels not seen since 1972

### U.S. Tight Oil: The Biggest Driver Behind the Oil Renaissance

<table>
<thead>
<tr>
<th>OPEC Members</th>
<th>2010</th>
<th>2011</th>
<th>2013</th>
<th>2014</th>
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<tbody>
<tr>
<td>Saudi Arabia</td>
<td>4.2 MMBO per Day</td>
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<td>Iraq</td>
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<td>Kuwait</td>
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<td>3.1 MMBO per Day</td>
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<td>UAE</td>
<td></td>
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<td>1.3 MMBO per Day</td>
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<td>Iran</td>
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<tr>
<td>Venezuela</td>
<td>.8 MMBO per Day</td>
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<td>Nigeria</td>
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<td>Ecuador</td>
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**U.S. tight oil production alone is larger than production in most OPEC nations**

OPEC Production ranked from highest (Saudi Arabia) to lowest per 2013 IEA reported production volumes. OPEC Neutral Zone production split between Saudi Arabia and Kuwait. Sources: IEA for OPEC production; EIA Annual Energy Outlook and Rystad Energy for U.S. Tight Oil. NOTE: Tight oil production includes liquids from tight natural gas plays.
Tight Oil Quality vs. U.S. Refining Configuration: The “Mismatch”

Product yields differ significantly

<table>
<thead>
<tr>
<th>Product Yields (%)</th>
<th>Distillation Yields (%)</th>
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</thead>
<tbody>
<tr>
<td>NGLs</td>
<td>100</td>
</tr>
<tr>
<td>Naphtha, Gasoline</td>
<td>90</td>
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<tr>
<td>Middle Distillates</td>
<td>80</td>
</tr>
<tr>
<td>Vacuum Gas Oil</td>
<td>70</td>
</tr>
<tr>
<td>Residual Fuel Oil</td>
<td>60</td>
</tr>
</tbody>
</table>

© = API Gravity

Blending U.S. tight oil into larger world pool is a more efficient allocation

Distillation Capacity versus Heavy Oil Coking Capacity, MMBD

- Crude Distillation
- Coking

The U.S. has two-thirds of the world’s coking capacity

U.S.: 18.3
Rest-of-World: 2.7

Exporting U.S. LTO enables a more optimal global allocation of crude oils among refiners

Source: Haverly Systems

Source: Bloomberg
U.S. Light Crude Oil Production vs. Light Refinery Runs

Light crude production will eventually exceed refiner ability to process it without substantial refining investments or crude exports

Source: Turner, Mason and Co., November, 2013, higher production case
Changing Pattern of U.S. Crude Imports

- Declining light, sweet crude imports, with year-round exports needed by 2017
  - Condensates and super-light crudes are already in surplus
  - Seasonal exports needed before then during U.S. refinery turnarounds/outages
- Eventual reductions in light, sour and medium crude imports
- U.S. likely to maintain heavy crude imports that better match domestic refinery configuration

Light, sweet crudes are already in surplus seasonally

Discounted domestic prices threaten investment in U.S. crude production

Brent ICE and NYMEX WTI Futures as of 11/6/2014
Lifting the ban on crude exports would increase U.S. production by 1.5 to 3.0 MMBD by 2020
- 10-20% increase

Removing domestic crude price discounts caused by the ban would increase investment in new production
- More wells and plays would become economic
- Increased cash flow to invest

Increased production would have significant economic benefits to the U.S.

Benefits of U.S. Crude Oil Exports

- Would lower consumer fuel costs at the pump by $18 billion annually
- U.S. economy could gain $135 billion and about one million jobs at its peak
- Reduce nation’s oil import bill by $67 billion annually
- Increase government revenues by $1.3 trillion between 2016-2030
- Strengthen U.S. geopolitical position

More jobs & economic development would result from continued growth in U.S. oil production

Gasoline Prices Are Set Globally by International Crude Prices

Refined product prices more closely track international crude prices (Brent) than U.S. domestic crude prices (WTI).

Refined product prices around the world track each other, demonstrating that U.S. gasoline prices are set globally.

U.S. crude exports should lower U.S. gasoline prices

Source: Bloomberg
Energy production prevented U.S. downturn from being worse, and spurred recovery.

North Dakota Employment and Economic Growth

State of North Dakota Employment Up Over 40% as Bakken Developed

The State Economy More than Doubled in a Decade
Gross State Product, Billion $

State employment and economic growth tied to Bakken oil production

Source: U.S. Bureau of Labor Statistics
Source: U.S. Bureau of Economic Analysis
Growth in Production Restored U.S. Role as Oil Powerhouse

Crude, Condensate and NGLs Production for Top 10 Countries, 2014

- Saudi Arabia: 11.4 MBpd
- United States: 11.1 MBpd
- Russia: 10.9 MBpd
- China: 4.2 MBpd
- Canada: 4.1 MBpd
- Iran: 3.5 MBpd
- Iraq: 3.5 MBpd
- UAE: 3.2 MBpd
- Mexico: 3.0 MBpd
- Kuwait: 2.9 MBpd

Source: Rystad Energy, November 2014

U.S. will likely surpass Saudi Arabia over the next year

OPEC Neutral Zone production split between Saudi Arabia and Kuwait
Global Crude Supply Disruptions vs. U.S. Tight Oil Growth

U.S. tight oil production growth has offset most of the global supply disruptions

Source: U.S. Department of Energy, EIA
U.S. Oil Production Prevented Higher Prices in Recent Years

Brent Crude Oil Prices Would Have Been $12 to $40 per Barrel Higher in 2013

U.S. Consumer Gasoline Prices Would Have Been $0.30 to $0.94 per Gallon Higher in 2013

Rising U.S. production has enhanced global oil security and affordability

Source: ICF International for American Petroleum Institute, October 30, 2014
New abundance of light, low-sulfur tight oil production in the U.S.

Offers tremendous economic and security benefits to the country

Mismatch with U.S. refinery configuration presents a challenge

Threatens to stunt tight oil development and its benefits to the U.S.

U.S. crude exports provide a solution
The Benefits of U.S. Crude Exports

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