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### • One Man's Opinions – Fall 2012

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#### Energy Self Sufficiency for the United States?

Scripps Howard News columnist DeRoy Murdock recently wrote an interesting column suggesting that the riots and uprisings in the Middle East do not have to be an economic threat to the United States going forward. For decades, as we developed a huge appetite for foreign oil, now over 50% of our usage, we feared over-dependency. Recent oil and gas discoveries and the potential for more right here in North America opened the door to the possibility of energy self sufficiency for the country, or at least for North America.

I quote the article in part. *“Against this backdrop the United States should end this dangerous game (dependency on Middle East oil) and move urgently to increase supplies of North American energy. We should capitalize on the vast hydrocarbon resources literally beneath our toes and under our oceans. With all deliberate speed U.S. oil should be drilled, natural gas should be fracked, and the Keystone Pipeline should be approved at once.”*

*“Foreign oil” should refer to petroleum from our peaceful and relaxed neighbors in Canada, a NATO ally. The Keystone pipeline will create some 20,000 private sector jobs at no cost to exhausted American taxpayers. It should tell the voters plenty that President Obama torpedoed this privately funded shovel-ready project that would decrease U.S. unemployment, increase American national security, and redirect petrodollars from the Mid- East to mid-Canada.*

*“If President Obama has changed his mind on these matters after last week’s killings and chaos, he should lead the charge toward friendly oil. Otherwise Gov. Mitt Romney should champion this cause as boldly as possible between now and November.”*

Strengthening these remarks is testimony from the American Energy Initiative (AEIA) in a recent hearing of the House Energy and Commerce Committee. It reinforces the fact that North American energy self sufficiency is achievable.

*“We are an energy-rich nation. We have more oil and natural gas than anyone thought possible even 5 years ago. We have more potential energy than many oil-exporting nations in the Middle East, and more than most countries in the world.”*

*“If we are allowed to safely produce more of our domestic energy resources and invest in more Canadian oils sands we could provide 100 percent of our U.S. liquid fuel needs in a matter of years. We need leadership. We have an opportunity to spur millions of jobs and billions of dollars of revenue to our government. But we need smart public policies to develop these vast and critical resources now!”*

I am convinced this is precisely the path we need to follow. Obviously, we need to develop oil fields we already know of, like the Arctic National Wilderness Reserve (bigger than many states) on acreage the size of Manhattan. Offshore prospects being held back by the U.S. government also should be drilled. We have a lot more oil to find.

***Let me be clear here. This newsletter is not oriented to the presidential campaign. Rather I wish to point out the obvious. Recent findings of more than 200+ years of natural gas supplies, on top of rapid development of new production techniques developed for mining Canadian oil sands at competitive costs, make it possible for our country, by 2020, to sever our dependency on Arab and other unstable country's oil. This surprising development after decades of increasing supply from foreign sources, is a "once in a lifetime" opportunity for us to forever become self sufficient in energy.***

An added benefit would be reducing U.S. dependence on coal as our base power source. The discovery of vast amounts of natural gas and the consequent decline in its prices make gas powered electric generation plants far more competitive. Natural gas has replaced coal as the hydrocarbon of choice for new power plants being built today. These plants are much cheaper and take far less time to build than coal plants. They generate much less pollution. They have short construction times and are a lot cheaper and far less complex. To over-simplify, they are basically a jet engine hooked up to an electric generator. They are "the answer" to our peak power needs in the foreseeable future.

Nuclear power is far and away the best source for "base power," which is the constant amount in demand around the clock. Environmentalists torpedoed these superb facilities with untrue scare stories some thirty years ago. The U.S. Navy has been powering many ships with nuclear for over fifty years and never had a fatality caused by a nuclear accident. The challenge for nuclear power is not safety, but very high capital costs and very long construction times.

The same high capital costs and construction complications and delays apply to coal gasification plants and other low polluting high tech coal plants that are now feasible.

It is unlikely that gasoline and oil prices will drop substantially even if we achieve self sufficiency in North America. Oil is a fungible commodity and it can be exported as well as imported. But the discovery of so much natural gas has dropped its price over 75% in the last several years. It is now highly competitive with diesel fuel for over-the-road trucks as well as buses. LNG fueling stations are already popping up all over the country.

Below is part of a report from an energy market consulting firm, PIRA Energy Group:

*"Adoption of natural gas fuel by trucking fleets is approaching a critical threshold, which ultimately could lead to enormous gas demand growth at the expense of diesel fuel.*

*The report addresses both medium- and longer-term natural gas prospects in the U.S. transportation fuel market. PIRA says the sheer volume of U.S. recoverable gas resources relative to anticipated demand suggest that natural gas prices will remain deeply discounted relative to oil prices in the foreseeable future."*

*"These lower prices are driving commercial trucking, corporate and government fleets to*

*move to the cheaper alternative, Liquefied Natural gas (LNG). Inexpensive North American gas is here already.*

*. PIRA's report concludes that future gas demand in such natural gas vehicles (NGVs) have enormous upside potential, led by private sector initiatives, with or without federal government assistance."*

*In a "high case" scenario, as much as 2.4 million barrels per day of diesel fuel demand could be saved. Liquefied natural gas (LNG) used in Class 8 trucks would be responsible for approximately 70% of that total, while fleet vehicles using compressed natural gas would account for the rest.*

*In a more moderate forecast, it pegs natural gas demand at 3.4 BCF/D in 2030, or only 15% below the high case, which underscores less complex hurdles in these fleets.*

*"Although the timing remains quite speculative, the private sector appears to be responding to this challenge without help from the federal government, which previously looked essential."*

*Cummins is scheduled to make available an 11.9-liter natural gas engine that uses LNG in early 2013.*

*"The implied payback period associated with this midsize LNG truck appears likely to generate high consumer interest," PIRA says.*

Natural gas pipelines span the country already. They can be extended into the new fields relatively quickly. Local delivery pipelines can also be expanded fast. It would appear that the LNG revolution is very close, if it is not already launched.

The U.S. government currently is massively supporting several alternative energy approaches, including ethanol, solar energy, wind power, and electric cars. I have personally supported and even invested in such options since the late 1970s. Sadly, none are currently competitive with oil without subsidies. Let us examine these possibilities.

Ethanol is a renewable fuel which can provide between 10% and 85% (when mixed with gasoline) of the fuel necessary to power our automobiles. Unfortunately Congress has "muddied the waters" where ethanol is concerned by banning imports of it. Brazil alone has sufficient sugar cane waste to make enough ethanol to meet current U.S. demand. Needless to say, this raw material is much cheaper than the corn we use in this country to produce domestic ethanol (with a government subsidy of 50 cents per gallon), which means it could be imported for much less. But Congress will not allow this.

Solar energy is not yet economically competitive as a source of electricity. And without a drastic drop in the cost of batteries, it cannot be used as a "base source" for our electric grids. Simply stated, the sun does not shine all day, in fact it can provide electricity for less than ten hours a day on average. Solar will ultimately take its place in providing some peak power to the grid at mid-day, especially in and near the deserts. But by its very nature, it is a limited potential source of electric power.

The same limitations apply to wind power. The wind simply does not blow all the time at a rate sufficient to power windmill generators. Again, this is a useful source of peak power, since the wind tends to blow stronger during the daytime. But sites featuring relatively constant wind are few and far between.

Electric cars are still in the experimental stages. The problem is the batteries which are available for use in them. Currently the Chevy Volt has severe limitations as to the distance between battery charges, and costs 50-100% more than competing gasoline powered cars.

Ironically, Toyota has been selling its hybrid Prius cars for years now with great success. They have expanded these gasoline/electric power systems to their other makes, including the Camry and even the Lexus. My son drives a Prius and raves about his gas mileage (35-50 mpg) and how well it rides due to the heavy batteries on board. It is interesting to note that this highly successful Toyota system gets NO subsidies from the U. S. government. Might this be a message for our leaders in Washington? I would point out that there were no government subsidies or support for the mammoth natural gas finds in Appalachia and the Plains states. The capitalistic system can perform miracles if governments leave it alone!

A personal note and invitation for my readers: Why live in Carmel, IN? I live and work here, just north of Indianapolis, and have for 17 years. I love it! It is a delightful upscale community and with a great lifestyle. In case you missed it, the September issue of Money magazine chose us its #1 best small city (pop. 50,000-300,000) in the USA. Stop and see me if you come this way. I will buy breakfast, lunch, or dinner and show you around “my town Carmel!”

There will be no blog next week as I will be at sea on Golden Princess. My next Blog, #37-12, will be out Oct. 11. Have a wonderful fall and football season.

Tom McAllister, CFP

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