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Q & A

Boone: The man with a big plan

INTERVIEWED BY DANIEL P. COLLINS

LEGENDARY OILMAN T. BOONE PICKENS has spent his life in energy: as a geologist, founder of an energy firm, West Coast oil trader. Throughout the years he has courted controversy and picked fights as well as supported numerous philanthropic causes. His bold attempts to take over major energy firms in the 1980s changed not only the nature of how energy firms operated, but the entire culture of Wall Street itself.

He has expressed a fondness for the big deal and bold moves but his most recent venture, while bold, is not too controversial. In fact, it makes a lot of sense. In 2008, Pickens decided to get out of partisan politics (he had been a large Republican donor) and dedicate all his efforts to promoting a solution to America's growing dependence on foreign oil, which he calls a major security issue. The Pickens Plan, among other things, calls for the transition of all federal government vehicles and over-the-road 18-wheel trucks to natural gas power. Legislation based on his plan could become law by the time you read this.

FUTURES MAGAZINE: After running an energy firm for 40 years, you embarked on a new career as a fund manager, and a decade later you refocused once again, creating a plan for American energy independence. Why is this so important?

T. BOONE PICKENS: It is a security issue for the country. We are importing 13 million barrels of oil a day, five million of it from OPEC, and if you look back at what President Obama said during his acceptance speech in Denver in July of 2008, he said in 10 years we will not import any oil from the Mideast. [He probably came to the same conclusion that I did.] Money that you are using for Mideast oil, some of it is getting to the [people we are fighting in the Middle East]. You are supporting both sides of the war. I don't understand why he hasn't moved. He is two years in and he has no plan for energy.

He made that promise two years ago and he has eight years to fulfill that promise. It has to be done with the American people and take politics out of it. You and I both would be willing if he came to the American people and said 'we have to get off of Mideast oil and you, Dan, and you, Boone, need to get on a domestic fuel in the next eight years.' That would be an unbelievable opportunity if he went that way to educate the American people on energy.

FM: The cost of crude oil has remained relatively high despite record inventories and a global recession. Why is this?

BOONE: You had a global recession but Asia is clearly in a recovery and demand is strong there, not so strong here. I still think that oil [production] has peaked at 85 million barrels a day. The Saudis have told you that

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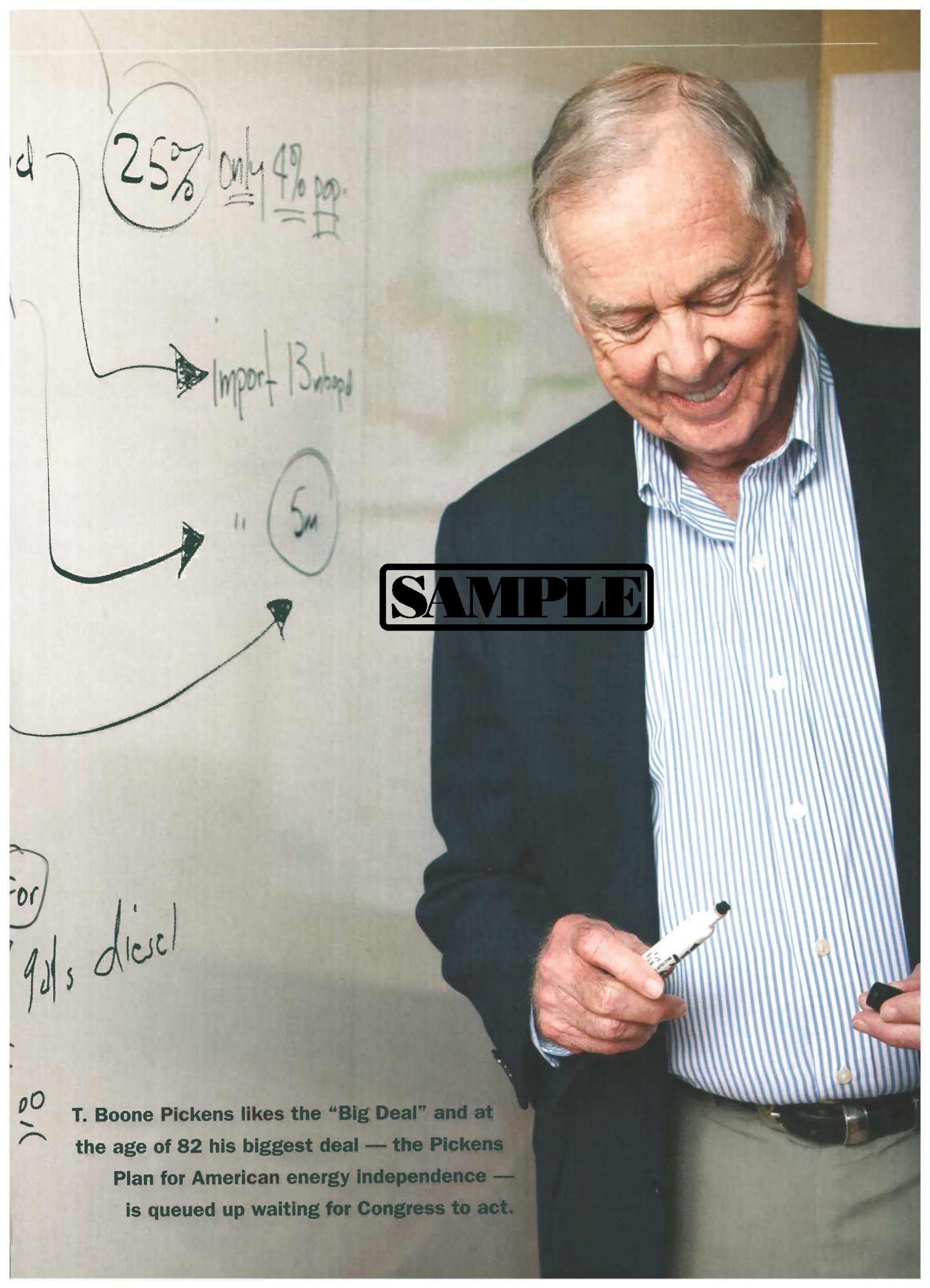
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PHOTOS BY PETE LACKER

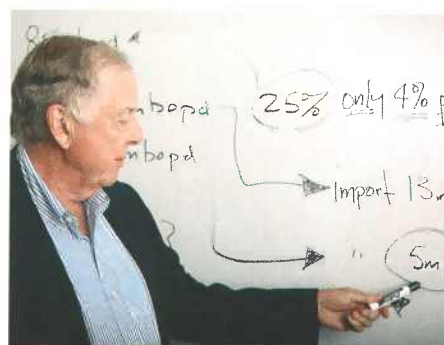
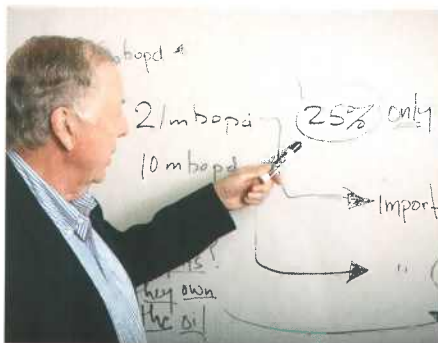
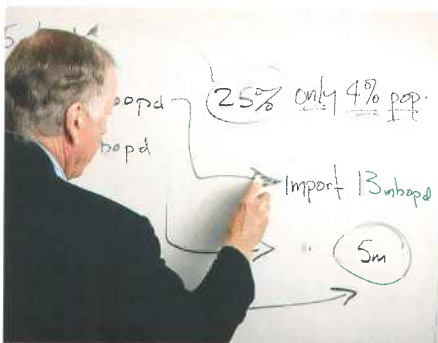


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T. Boone Pickens likes the "Big Deal" and at the age of 82 his biggest deal — the Pickens Plan for American energy independence — is queued up waiting for Congress to act.



they want \$85 per barrel and whatever they want, they can get. If you think it is a free market you are kidding yourself. The market is controlled by the Saudis and whatever they want the price to be, well, that is what we will have to pay.

FM: Some analysts say crude oil is no longer simply a commodity but a mechanism to manage global economic risk, similar to how some view gold. Do you share this point of view?

BOONE: Inventories are out of place with demand. The demand is in Asia and people still view crude oil and crude oil markets in the United States. Are we important? Of course we are, but there is a great amount of demand away from us. Those inventories are in Cushing (Okla.) [and] that is not where the demand is. There are many users of oil and it is used for different reasons, some of the ones you just mentioned are the case.

FM: What is your long-term outlook for the energy sector: Crude oil? Natural gas?

BOONE: From a security standpoint, we have to get on our own resources in the United States. If you didn't have resources that would be a real problem, but we have resources. You've got 4,000 trillion cubic feet of natural gas. It is 30% cleaner than gasoline and diesel, it is cheaper and it is an unbelievable opportunity for us to move to our own resources again. If we don't use natural gas for serious transportation fuel, we are going to go down as the dumbest crowd that ever came to town. Why wouldn't you replace dirty-foreign-expensive with cheaper-cleaner-domestic?

FM: This is probably contingent on whether your plan is adopted, but where do you see the price of crude and natural gas in the near term?

BOONE: 2011 is probably going to be a pretty weak year for natural gas. Eventually it will move up, but we have such an abundance of natural gas [and] that is the reason for the wide gap (ratio of price of crude oil to natural gas) that we have never seen before. If it is on a BTU basis, it is 6-1, but we have never been there. Natural gas has always been sold at a discount to oil but if you look at where it hangs out, it is 10-1, so when you have \$75 oil, you have \$7.50 natural gas. We have not had \$7.50 natural gas in a while, so natural gas will move up over time because it is a superior hydrocarbon to oil.

FM: The ratio of cost of crude oil to natural gas has never been so wide. Why is this?

BOONE: You have too much natural gas. You are oversupplied with natural gas. Natural gas is cheaper than coal now.

FM: Your plan makes sense, why hasn't it happened yet?

BOONE: It has happened. You have an energy bill working. You have a 16-day window — eight days in September, eight in October to pass something. If you miss it, then you have a lame duck [Congress]. The energy bill that I want is in place, everybody puts it in their plan — it is HR 1835 in the House. If they don't put stuff on the bill [and] it sits there ready to be voted on, it will pass on the first vote. That is the one that you have a \$65,000 tax credit for 18-wheelers. That also is in the bill. They know it will pass [there] too if they don't do stand alone, they try and put everything on there that they can, like cap and trade. That will have a hard time passing. Kerry-Lieberman tried that for three months [and] that is now off of it. Now they have the fracking (pronounced fracturing) issue on there and the liability in the Gulf so they are struggling with those right now. But they can pass what I want on the first vote.

FM: Are some of those other issues a deal killer for you?

BOONE: I have to go along with what [ends up in it]. The fracking issue, I know that business. I have been in it for over 50 years and I have never had a problem with a frac job messing up some ground water. As long as it is in there, it is an issue. Let's see how they work through it. No one has shown evidence that [fracking contaminates ground water]. That is just a statement that people make that it messes up the water. There is no record of that happening.

FM: And you are not a neophyte on the water issue, right? You are also in the water business so you don't want to harm that business.

BOONE: That's right.

FM: Where do you see the price of energy if your plan is carried out and if it isn't?

BOONE: If you do nothing, you are going to be faced with \$300 per barrel oil in 10 years, you will be importing 75% of your oil and you will be more dependent on OPEC than you are today. Of course 70% of oil is used for transportation. A battery won't

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move an 18-wheeler. You have one resource that will replace imports and that is natural gas.

FM: Some critics point out the you have financial interests in wind farms and other elements that would benefit from your plan and the plan is simply promoting your economic interests. How do you respond to that?

BOONE: What I usually say to those guys is, 'What is your plan? Do you have a plan? Nope. They don't have a plan so your plan is foreign oil.' Wind is a marginal money maker because of natural gas. Natural gas at \$4 doesn't do much for wind. I haven't made any money on wind and I don't have any legislation that is ready to go about wind. I am working on natural gas for trucks... You are sitting here with 4,000 trillion [cubic feet of] natural gas, which is equivalent to 700 billion barrels of oil, which is three times what the Saudis have. You are honestly going to look like a fool if you sit here and ignore what you have available to you and you don't use it.

FM: Why has the United States not managed to create a comprehensive energy plan despite all the shocks of the last few decades? Can we do it now?

BOONE: This is the 15-second answer: lack of leadership. You go back to Nixon and go through Obama, every guy who has been president or has run for president has said 'elect me and we will be energy independent,' and they never have done anything about it. Two, you always had cheap gasoline. It has been cheap enough that everybody has either adjusted to it or conditioned themselves for it, but it has been acceptable and that is it.

FM: Will we first have to experience more pain?

BOONE: You may not be just talking about price pain. The people that have the oil, most of it, are not friends of ours; 40% of the oil we import is from countries the State Department recommends we don't visit, which tells us they're not friends. Why would you put yourself in a spot where you are dependent on oil from the enemy?

FM: So if we have a shock, oil goes back down and then it is not on the front burner.

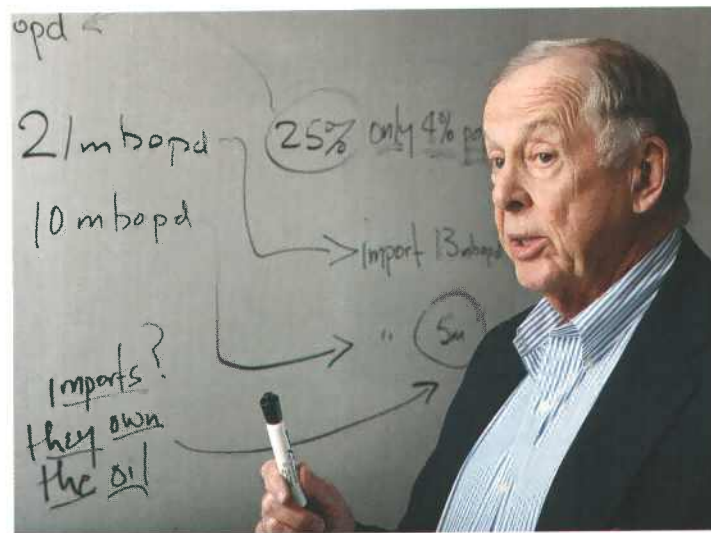
BOONE: That is the way it goes. But you've got a very strong lobby in Washington by the major oil companies. The major oil companies are international, they are not American companies. People get the idea that Exxon, Chevron and Conoco Phillips are American companies. They are domiciled in the United States, but Exxon for instance gets 84% of their revenues from offshore. Is there anything wrong with them? Of course not. They are well operated, well managed companies but they are not companies I would ask about domestic oil policy. OPEC's revenue in 2003 was \$250 billion [and] their revenue in 2008 was \$1.25 trillion, five times as much. If you can't do anything about it, that is one thing, but if you can do something about it, you are stupid not to.

FM: You have held strong political views in the past. Is that making your bipartisan efforts hard to accept by some?

BOONE: I don't think so. I worked very well with the majority leader Harry Reid. I had been a Republican in the past but Reid and I made a deal in June of '08 where I said I was getting out of politics. This is a bipartisan issue. I am going to promote it that way and try and accomplish an energy plan for America. We talked for an hour and a half and he said 'I will help you do it,' and he has done everything he said he would do. And John Larson (D-Ct.) over in the House understands it. He is frustrated that we can't get it passed, but we still have time to do it. I think it will happen. If you look at the House cosponsors of 1835, it has 144 cosponsors and they are 50/50 Democrats and Republicans. Hell, I think I've got bipartisan support for an energy plan, you just got to get it in there and vote on it.

FM: Are you confident it is going to happen this fall?

BOONE: Confident? I will go ahead and say confident, I think it is going to happen. Mildly confident. We need it. We desperately need an energy plan. My God, these guys in Washington are supposed to be taking care of the country. Nobody argues with me about it. Nobody will stand up and say 'Boone you don't know what you are talking about; Boone what you are talking about is ridiculous; Boone we are fine the way we are.' This is all about this country. I truly believe I have a mission to get an energy plan for America.



FM: What could derail it?

BOONE: That they can't get 60 votes. The fracing issue is struggling in the Senate; it is hard to get 60 votes on that. If it fails it will fail for that reason. You got to get it out of the Senate. We are going to know really quick. You've got eight legislative days in September and eight in October. I think they will try at that time. If we miss, then you've got a lame duck.

FM: This will come out Oct. 1. What are the chances this is passed by the time your face is on the cover of Futures?

BOONE: At that point probably 50/50. Your timing could be perfect. I am fixed to go to Washington in that 16-day window; if I can help them I will be there working on it.