



Storage and Strategic Stocks

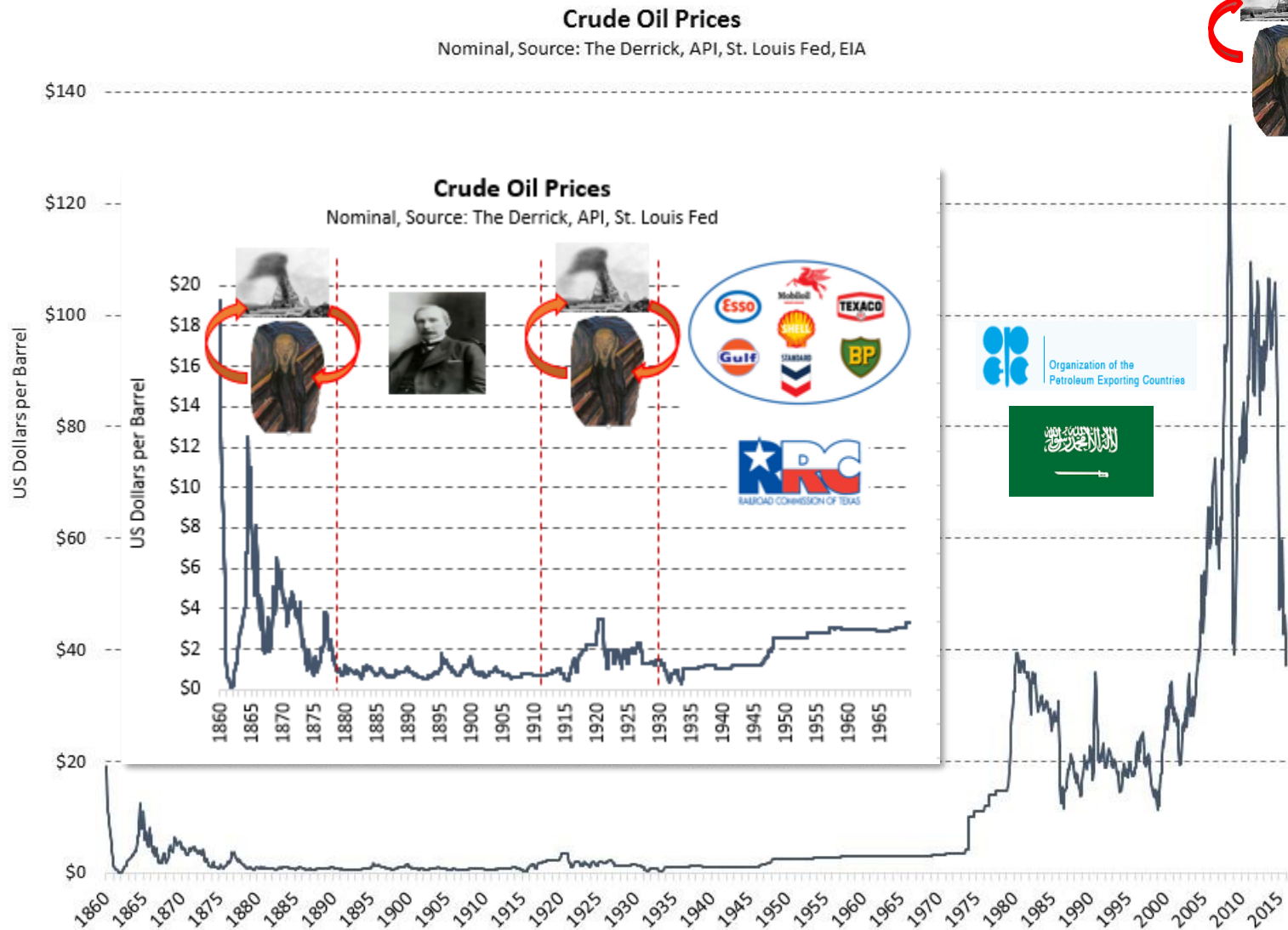
Presentation to IEF-KAPSARC Thought Leaders' Roundtable

February 17, 2016

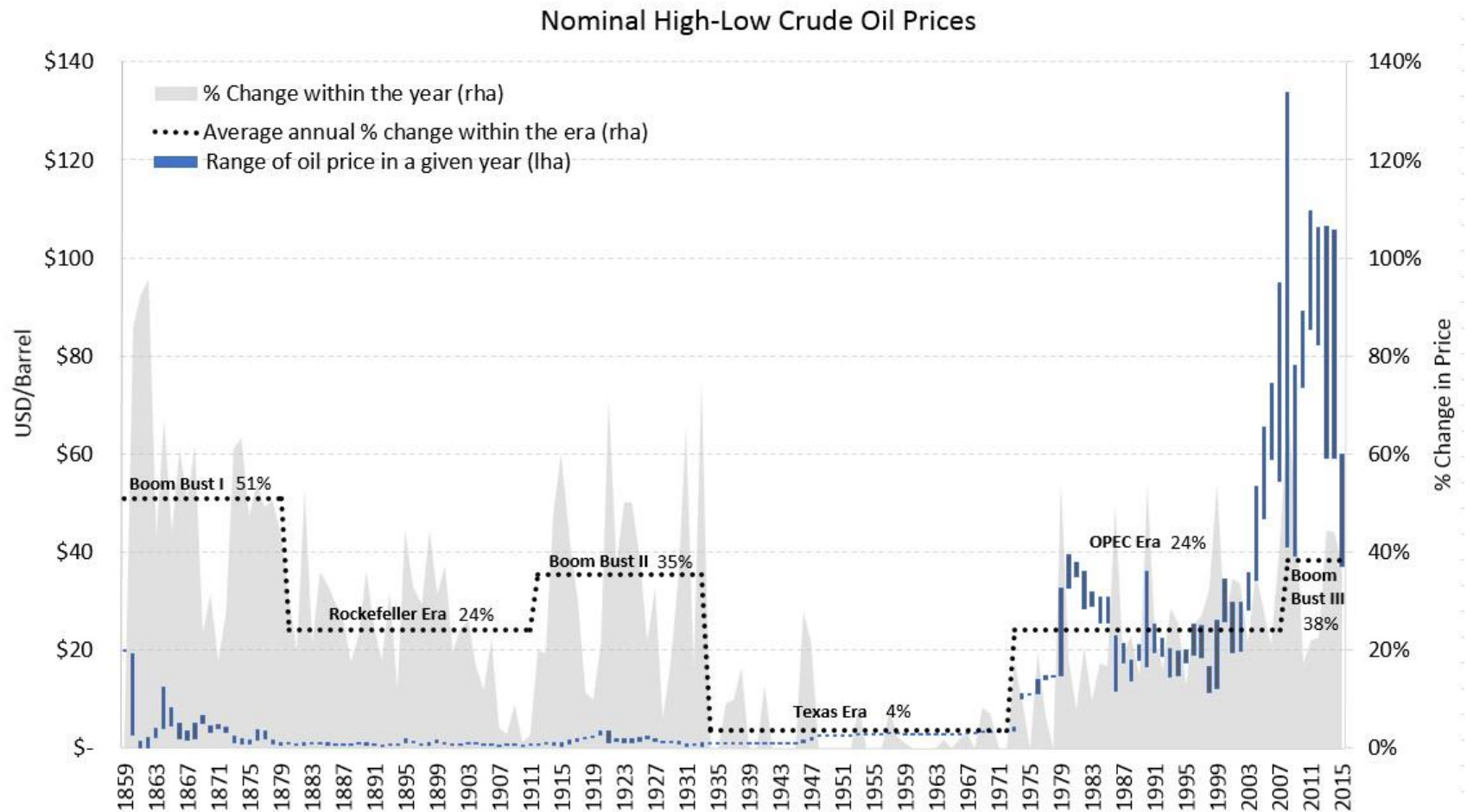
Robert McNally
President, The Rapidan Group, LLC

No Supply Manager, No Peace

Absence of Swing Producer = Boom Bust Oil Price Cycles



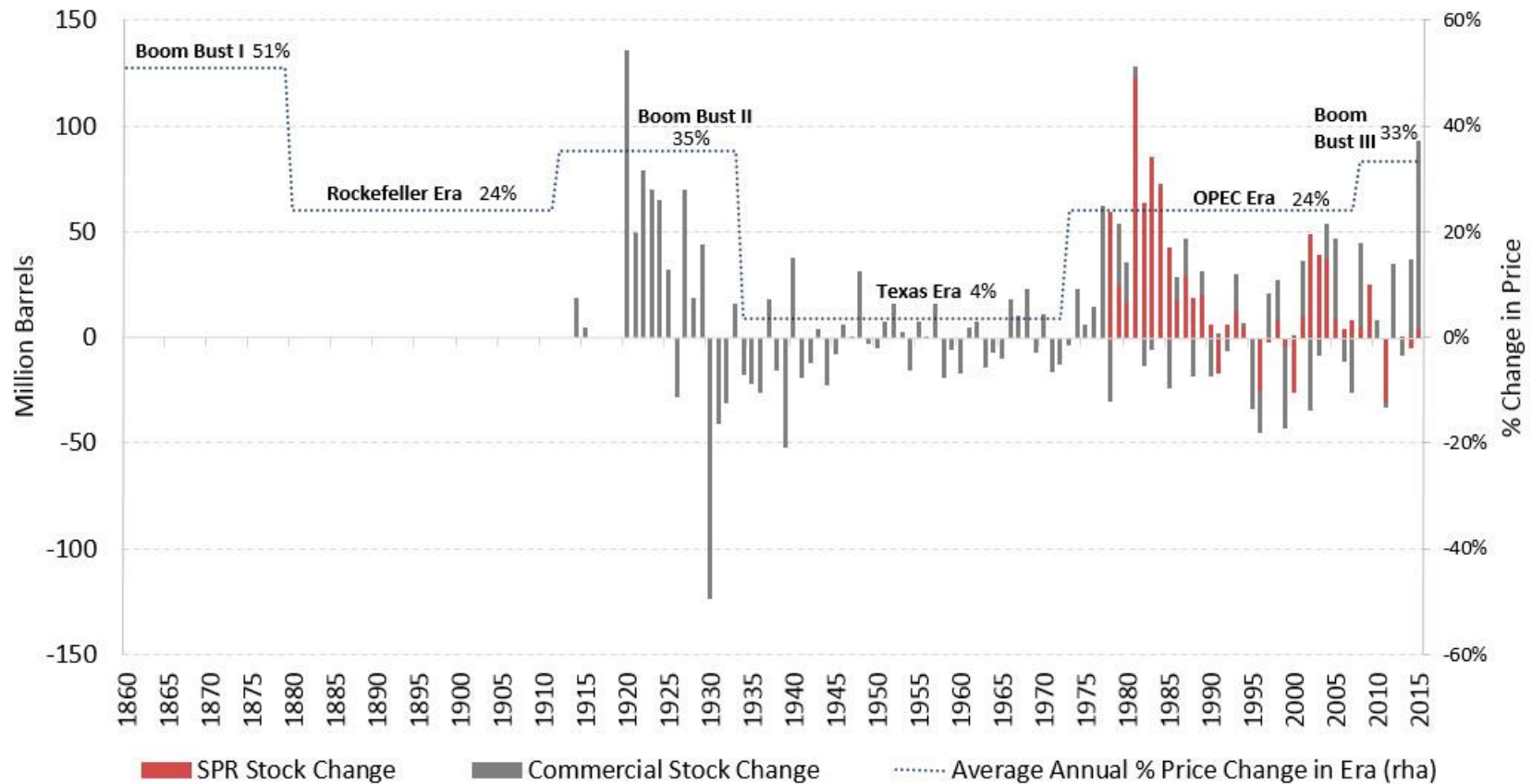
Global Oil Market In an Unmanaged Era



Data Sources: The Derrick, API, St. Louis Fed, and EIA

Price Volatility Induces Desire to Build and Hold Stocks

Changes in US Crude Stocks and WTI Price Volatility



Source: EIA, The Derrick, API, St. Louis Fed, Rapidan Group

Washington Thinks This is a Good Time to Sell SPR Stocks

SPR Sale (million barrels) // Source: The Rapidan Group					
Fiscal Year	Budget Deal - General Spending	Budget Deal - Additional sales for SPR modernization *	Highway Bill Conference Report	Total SPR sales	SPR sales in kb/d over one year
2016			†	†	†
2017		10	†	10	27
2018	5	10		15	41
2019	5	10		15	41
2020	5	10		15	41
2021	5			5	14
2022	8			8	22
2023	10		16	26	71
2024	10		25	35	96
2025	10		25	35	96
Total	58	40	66	164	

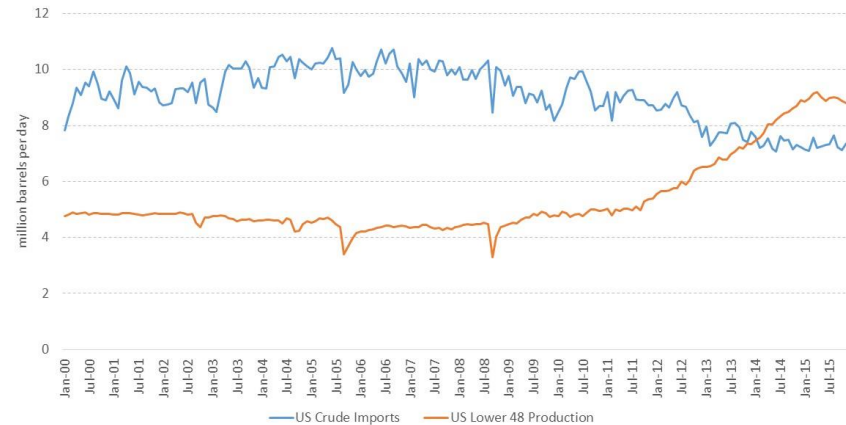
* Instead of a quantity, Congress authorized a \$2bn dollar amount. Our estimates for quantities of barrels drawn assumes a \$50/bbl price and that sales are evenly spread over authorized period; actual volumes and timing could change.

† The highway bill allows the Secretary of Energy to sell volumes "determined to be appropriate" in FY2016-17

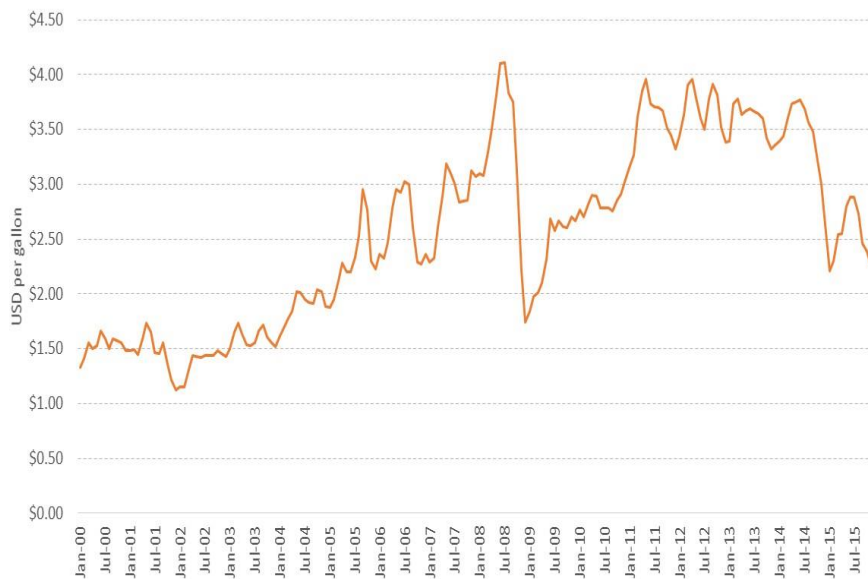
Why Washington Wants to Sell SPR

- Plunging oil imports on rising shale production
- Low gasoline prices
- Fiscal pressure

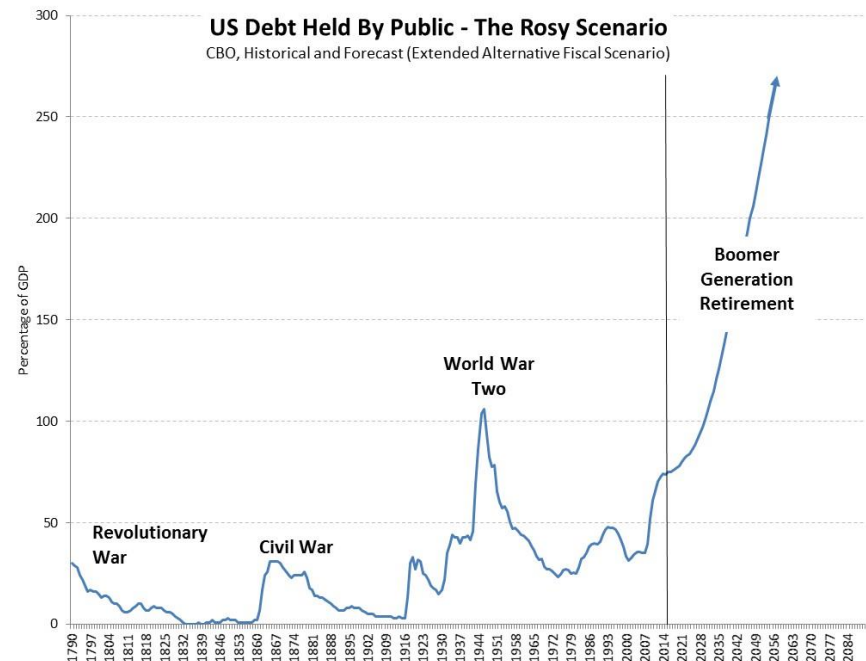
US Crude Imports and Lower 48 Production
Source: EIA



US Retail Gasoline Prices
Source: EIA



US Debt Held By Public - The Rosy Scenario
CBO, Historical and Forecast (Extended Alternative Fiscal Scenario)



Fearless Prediction: Washington Will Reverse and Likely Resume Filling (At Higher Prices)

