SSDA SERVICE STATION DEALERS OF AMERICA AND ALLIED TRADES

SSDA News

Service Station Dealers of America and Allied Trades

VOLUME 31, ISSUE 8 AUGUST, 2017

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Government Affairs Update

By Roy Littlefield

SSDA-AT had busy month battling the Washington heat while attending fundraisers, meetings on Capitol Hill, Coalition meetings, conference calls, and meeting with regulatory officials.

SSDA-AT continues to take part in ongoing efforts to form a White House Conference on Small Business (WHCSB) under the Trump Administration. Recently, we wrote to the President to respectfully requesting that he sign an Executive Order authorizing the next White House Conference on Small Business. White House Conference on Small Business (WHCSB) which has not taken place in over two decades. That is far too long to go without giving voice and a forum to America's small businesses which account for 99 percent of U.S. private sector employers and 64 percent of net new private sector jobs. In July, SSDA-AT took part in several conference calls focused on the formation of the WHCSB.

Nearing the end of July, SSDA-AT participated in an SBLC legislative summit to discuss the current prospects of healthcare reform, tax reform, the debt ceiling, transportation funding, and other pending issues Congress plans to address in 2017. We remain an outspoken leader and contributor to SBLC and often join them in lobbying efforts.

In the middle of the month, SSDA-AT attended the Small Business Labor Safety (OSHA/MSHA) roundtable meeting. Regulations impacting small business was discussed at the meeting and a regulatory outlook for the upcoming months was given. We will continue to stay active on the regulatory front, even though movement on many regulations have been slow thus far in 2017 because of presidential order.

SSDA-AT joined a large coalition signing on to a letter to the Senate about the tax treatment of health benefits, including preserving the income exclusion for employer-paid group health premiums. And recently we participated in the National Small Business Forum which featured presentations from, and dialogue with, high-level staff from the Internal Revenue Service (IRS).

At the end of the month, we attended an American Highway Users Alliance board meeting in Washington. Transportation funding was the topic of discussion. It seems that the earliest Congress would address funding in this area would be in the fall but more likely early next year.

The American Trucking Association (ATA) gave a presentation at the meeting on their idea to fund the highways. They want to add a 5 cent per gallon tax at the refiner level on gasoline for 4 year straight adding 20 cents to the price of gas. They also want to eliminate the FET on truck tires and the FET on truck parts.

SSDA-AT will be researching and gathering more information on this proposal and others.

We look forward to participating in upcoming discussions this year on tax reform, healthcare, and transportation funding. Please let us know your thoughts on different proposals.

U.S. shale producers are drilling themselves into a hole

U.S. shale firms are drilling themselves into a deep hole despite warnings from industry leaders about the risk of flooding the market with too much crude.

Drilling and production are rising. Prices are declining. Companies are barely breaking even or losing money. Costs are starting to rise. And share prices are sliding.

Current oil prices are not sustainable according to Harold Hamm, the chief executive of Continental Resources, said in an interview on June 28.

Prices need to be above $50 per barrel to be sustainable and below $40 would force producers to idle rigs, Hamm said ("Harold Hamm warns oil prices below $40 will idle U.S. drilling", CNBC, June 28).

"While this period of adjustment is going on, drillers don't want to drill themselves into oblivion. Back up, and be prudent and use some discipline," he urged rival chief executives.

Many of Continental's leases are in North Dakota's Bakken and Oklahoma, where wells are typically more expensive to drill and yield less oil than some other shale plays.

The resurgence in shale drilling over the last year has been concentrated in the Permian Basin of Texas and New Mexico, where costs are much lower and yields higher.

There are now almost 370 rigs drilling for oil in the Permian compared with 50 in the Bakken, according to oilfield services company Baker Hughes.

The number of rigs drilling in the Permian has almost tripled since the end of April 2016, and the Permian now accounts for almost half of the rigs drilling for oil in the United States.

But even in the Permian, shale firms have struggled to make money with oil prices stuck below $50, raising questions about the sustainability of the drilling boom.

Many shale drillers claim they can drill wells profitability even with benchmark WTI prices below $50 as a result of significant cost reductions and improvements in efficiency.

But most shale firms were still losing money or at best breaking even in the first quarter of 2017, even before the renewed slump in prices.

Pioneer Resources says it has the largest acreage in the prolific Spraberry/Wolfcamp section of the Permian and low average royalty and acreage costs.

Pioneer has been praised by equity analysts for its active hedging programme that aims

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U.S. shale producers are drilling themselves into a hole

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to protect cash flow from short-term volatility in oil prices.

But the company reported losses (negative net income) of $273 million in 2015 and $556 million in 2016.

Pioneer reported a further loss of $42 million in the first quarter of 2017, despite the substantial rise in oil prices compared the same period a year earlier.

Continental lost $354 million in 2015 and $400 million in 2016 before just about breaking even with net income of less than $0.5 million in the first quarter of 2017.

EOG Resources, another prominent producer, reported a loss of $4.5 billion in 2015 and $1.1 billion in 2016 before turning a small profit of $29 million in first quarter 2017.

Since the first quarter, WTI prices have fallen by more than $3.50 per barrel, or 7 percent, from an average of $51.78 in January-March to just $48.14 in April-June, intensifying pressure on shale producers even further.

Many shale firms have hedging programmes that should protect them from the decline in prices in the short term, but most have hedged only a small proportion of next year's production.

The current calendar strip allows producers to lock in WTI prices at just $50 for 2018, so most are waiting for a renewed rise in forward prices.

But every week they wait, their hedging cover declines by around 2 percent, assuming they have an average hedge maturity of 12 months.

In the meantime, producers are braced for cost inflation, with the major oilfield services firms pressing for price increases by the end of the year and into 2018.

Since WTI prices peaked in late February, shale producers have added more than 150 extra rigs drilling for oil.

The rig count is up by 430 over the last 12 months even though WTI prices are now $3 per barrel lower.

But share prices for all the major producers are sliding. Pioneer's share price is down almost 15 percent since the start of the year. Continental is down 39 percent. EOG has fallen 13 percent.

Many shale producers seem to be relying on OPEC to bail them out by cutting its own output further to drive WTI prices back above $50 per barrel.

But it not be rational for OPEC to cut output if the only consequence was to encourage continued growth in U.S. shale. Key OPEC producers appear unenthusiastic about further cuts.

If something cannot go on forever, it will stop. The slide in oil prices over the last four months is sending a signal to shale firms about the need to moderate drilling and production programmes.

Either the drilling boom moderates very soon, or WTI prices are likely to fall below $40 per barrel to make it stop.

Oil falls as sources say API data show unexpected climb in U.S. crude supply

The American Petroleum Institute reported an unexpected climb of 1.6 million barrels in U.S. crude supplies for the week ended July 14, according to sources. The API data also showed a drop of 5.4 million barrels in gasoline supplies, while inventories of distillates were down 2.9 million barrels, sources said. Analysts polled by S&P Global Platts expect the EIA to report a decline of 3 million barrels in crude inventories. August crude CLQ7, +0.59% was at $46.25 a barrel in electronic trading, down from the contract's settlement of $46.40 on the New York Mercantile Exchange.

Push Toward Tax Reform

On July 17, 2017, SSDA-AT and the Small Business Legislative Council (SBLC) sent comments to members of the Senate Committee on Finance, as the committee prepares for the upcoming push towards tax reform.

While SSDA-AT strongly supports efforts to make the tax system simpler and more manageable, it is critical that tax reform not come at the expense of small businesses and their employees. Already, in the House Blueprint and the President's outline, there have been proposals that are deeply concerning for small business and could undermine small business' role as a critical driver of growth and job creation in this country. As discussed further below,

SSDA-AT urges the Committee to reject these problematic ideas and use tax reform as a vehicle to help, rather than hinder, small businesses.

Save LIFO

Purpose of LIFO and FIFO inventory accounting system:

1) To track product. A business always wants to have adequate inventory on hand to meet demand, whether manufacturing, distribution, or retail.

2) To track costs. A business must manage cash flow to maximize efficiencies. Since inventory items tend to be fungible, inventory conventions are a key part of tracking costs.

3) To determine income. The tax code requires taxpayers to use the best inventory accounting practice in the trade or business that most clearly reflects income. FIFO (First-in, First-out) is best suited to a business with falling prices. LIFO is best suited to a business with rising prices.

4) LIFO and FIFO achieve the same purpose: they most closely match the cost of goods sold with the cost of the replacement inventory the company must purchase in order to remain in business.

5) Myth-buster: Tracking the flow of physical inventory and tracking costs are two different things. Both FIFO and LIFO track costs, not the flow of physical inventory

LIFO is not a tax expenditure:

LIFO is a 76-year-old GAAP-approved inventory accounting system which does not meet the statutory definition of a tax expenditure. From its adoption in 1939 through 2008, LIFO was not included in the Joint Tax Committee list of tax expenditures, and is still not included on the Department of Treasury list of expenditures today. http://savelifo.org/wp-content/uploads/2017/06/LIFO-is-not-a-tax-expenditure.pdf

LIFO repeal would slow the economy, cost jobs, and reduce revenue prospectively

The economic dislocation that repeal of LIFO would cause would more than offset any new Federal revenue. A Tax Foundation study released in February, 2016, found that repeal of LIFO would reduce GDP by $116 billion per year, reduce federal revenue by $518 million annually, and cause the loss of as many as 50,300 jobs. Click here for a Tax Foundation study on the impact of LIFO repeal: http://savelifo.org/wp-content/uploads/2016/02/TaxFoundation-FF501.pdf

LIFO repeal would be uniquely and punitively retroactive:'

LIFO repeal would require the retroactive recapture all LIFO-related deductions that have been taken by LIFO taxpayers, sometimes over many decades. Under current law this recapture tax is paid only when the company reduces its inventory levels, experiences deflation, or goes out of business. To impose that tax in the absence of any of those triggering events would retroactively change the rules for LIFO taxpayers. For more on this click here: http://savelifo.org/pdf-2012/LIFO-Coalition-White-Paper-re-Retroactivity-Updated.pdf and here: http://savelifo.org/lifo-repeal-retroactivity-patrick-driessen-article-published-by-tax-analysts/

U.S. Oil Lures Fastest Growing Guzzler as Arbitrage Opens Up

A type of U.S. crude pumped in the Gulf of Mexico is proving to be more attractive in the fastest-growing oil market compared with Middle East staples that are on offer.

Indian Oil Corp., the nation's largest refiner, has bought Mars Blend crude for arrival in October to the South Asian nation, according to Arun Kumar Sharma, the company's finance director. That's the processor's first purchase of American supply. About 1.6 million barrels of the grade will be loaded with 400,000 barrels of West Canadian Select on a very large crude carrier, he said.

The shipment is set for Asia as arbitrage flows of Mars crude to the world's biggest oil market become viable versus Middle East oil, supplies of which have been reduced by OPEC's output curbs aimed at easing a glut. The cuts have turned regional benchmark Dubai crude costlier relative to other markers such as Brent and U.S. West Texas Intermediate, luring rival supplies to India as well as other big consumer nations.

"Middle Eastern suppliers are waking up to the growing dominance of U.S. crude in the Asian market," said Abhishek Kumar, senior energy analyst at Interfax Energy's Global Gas Analytics in London. "Heavy grades of U.S. crude have become more price competitive compared with those from the Middle East, thanks to OPEC's oil-output cut, which provided the U.S. an opportunity to boost its own oil production."

Mars crude traded at about 70-90 cents a barrel below WTI on a free-on-board (FOB) shipping basis late last week, according to a Bloomberg survey of four traders. That's equivalent to a 10 cent discount to 10 cent premium over Dubai crude on a cost and freight (CFR) basis to Japan on a VLCC, according to Bloomberg calculations.

The discount of Dubai crude to Brent, the benchmark for more than half the world's oil, has slumped to about 80 cents a barrel, compared with more than $3.50 a barrel in early July last year, according to data compiled from PVM Oil Associates.

Competitive Prices

"North American crude has become very competitive to Middle East crude because of narrowing Brent-

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Dubai differentials and low freight charges,'' Indian Oil's Sharma said. The company, which bought the crude via a tender, purchased the U.S. oil at a price "very close to Basrah Light," he said, referring to Iraq's flagship grade.

U.S. crude prices are competitive relative to OPEC supplies, and the ability of Indian refiners to process different grades is helping the nation take advantage of attractive pricing, Indian Oil Chairman Sanjiv Singh said in an interview in Istanbul.

Another state-run Indian refiner, Bharat Petroleum Corp., is also seeking 1 million barrels of U.S. crude for delivery in September-October to Kochi on the nation's west coast, according to a tender document obtained by Bloomberg. Grades including Thunder Horse, Southern Green Canyon, Mars Blend, West Texas Sour and Alaskan North Slope are being sought by the processor.

"We are trying to increase our independence from certain crudes," said R. Ramachandran, the head of refineries at Bharat Petroleum. "Expansion of the Kochi plant gives us the ability to expand our crude basket."

India has been considering buying American oil ever since the U.S. reversed a decades-old law that restricted exports of unrefined crude, as the South Asian nation attempts to diversify its supply sources. The country, which imports more than 80 percent of its crude requirements, purchases oil from three primary areas: the Middle East, Latin America and Africa.

India's Oil Minister Dharmendra Pradhan has been haggling with OPEC, which meets about 86 percent of the nation's oil needs, for a discount by virtue of being a large and loyal customer. "Days of suppliers are gone, consumers are kings now," Pradhan said at an energy conference in Istanbul.

President Donald Trump last month said during a visit by Indian Prime Minister Narendra Modi that the U.S. expects to export more American energy to India, a $2 trillion economy that the International Energy Agency expects will be the fastest-growing oil consumer through 2040.

"We will look at sourcing more volumes of U.S. crude going ahead," Sharma said.

Technology Integrator Software Improves Process Safety Management

For offshore oil and gas managers, risk management - specifically process safety management (PSM) - continues to be a major concern. These challenges in the current low oil price environment have introduced a set of influential conditions that present significant concerns for leadership in their team's ability to effectively evaluate and manage major accident event or hazard (MAE/MAH) risks.

Historically, whenever challenges arose, the solutions included prompt and robust capex and dedication of people to mitigate the risk to their people and their assets.

At $40-50/bbl oil, both money and people are in short supply today and the impacts to the bottom line and maintaining production pose potentially conflicting priorities.

To better quantify the full extent of human resource losses, there have been more than 351,000 jobs cut by oil and gas producers worldwide. Add that to the fact that oil has yet to reach the long-anticipated and hoped for price of $60/bbl, and you have an industry that is averse to any type of expenditure that could be viewed as discretionary. Some experts predict that by the time OPEC's self-imposed production cuts end, the existing surplus may not have been substantially reduced due to depressed consumption, thus prolonging the current uncertainties in pricing.

With the strength in US shale oil production and increase in OPEC production in the foreseeable future, long-term price volatility, at a minimum, seems likely. Risk, specifically MAE/MAH risks to offshore facilities and assets remain constant. The low prices, high overhead and complicated nature of managing PSM risks are as great as ever. So, it would appear that the risk management challenge continues to pose a serious problem without solution - or does it?

Fortunately, while the tides of fortune have ebbed in the oil and gas industry, advancements in integrated technology have flowed at an accelerated pace.

This bounty in the technology market provides the offshore oil and gas industry with solutions to some of its most pressing concerns regarding MAE/MAH. Most notably, integrated technology tools and systems have been developed that enable offshore operators and explorers to view the effectiveness and health of their MAE/MAH safety barriers in real time, as compared to an annual study or review.

The evolution of process safety management has included a veritable kelp forest of processes to identify, qualify, and even quantify risk. They include qualitative risk analysis, risk registers, "Bowties," HAZOPS, HAZIDS, LOPA analyses, enterprise computer software programs for workflow management, specialized software programs to manage maintenance, control of work, permitting, safety critical equipment registers, etc.; not to mention safety management system requirements in the form of procedural (administrative) controls.

For operational personnel, the complexity and sheer volume of this information presents them with challenges in understanding and interpreting the sheer volume of data, most of which is static and based on "expected" or ideal conditions.

With the enhancements in production equipment and 21st century control systems, there are now highly effective digital control systems that also provide data and information for operational personnel to interpret.

Technology Integrator Software Improves Process Safety Management

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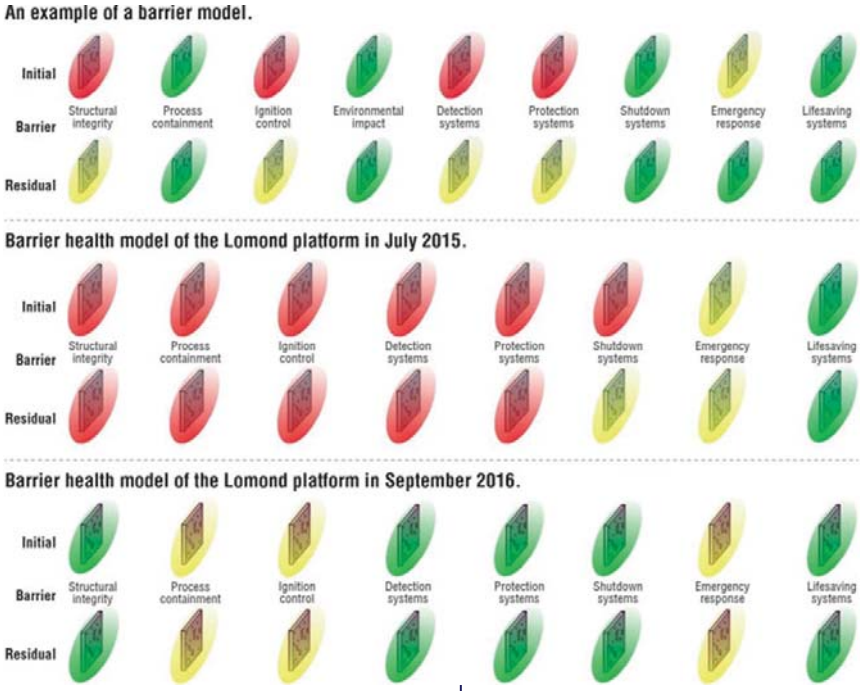

In essence, while there is certainly no shortage of data, there is a shortage of hours in a day and number of people to analyze it all.

This data runs the gamut from the three-ring HAZID studies that sit on a shelf to the latest enterprise software, which provides up-to-date information on training, competency, and workflow activities of employees on an individual asset. So, how do we "operationalize" process safety risk management?

Simply stated, how do we retain and use the processes, systems, and data that are available but acquire and use it in a way that makes it easier to understand and interpret?

The answer is technology integrator software and software applications that collect data from multiple sources.

These software applications integrate and analyze the data using algorithms that are specific to the type of analysis that is being conducted in order to provide the user with a holistic picture, based on these multiple inputs. Heretofore, that task has been daunting but that is no longer the challenge.

The present challenge is to find the right technology integrator tool to solve the problem or provide answers to the questions that the operator seeks to answer.

If anything, the world is awash in data these days and more data does not always correlate with an improved understanding.

In the specific case of MAE/MAH prevention, it is desirable to use an output that has been normalized for use in the oil and gas industry so that it is appropriate, provides relevant data in a format that is widely used and understood and can be easily interpreted.

One such example or tool is James T. Reason's Swiss Cheese Model. This model has been further refined by using the 'stop light' colors of red, yellow, and green to provide the overall health of the barrier, based on the parameters established by the parent organization.

By inputting detailed risk analyses/risk assessments both "Initial" (prior to the application of controls or mitigations) and "Residual" (following the application of controls and planned mitigations), the user of the Barrier Model can readily interpret the health of each individual barrier, before and after application of planned or 'in situ' corrective measures.

D.C. appeals court orders EPA to move ahead with methane rule

A federal appeals court in Washington ruled Monday that the head of the Environmental Protection Agency overstepped his authority in trying to delay implementation of an Obama administration rule requiring oil and gas companies to monitor and reduce methane leaks.

In a split decision, the three-judge panel from the U.S. Court of Appeals for the District of Columbia Circuit ordered the EPA to move forward with the new requirement that aims to reduce planet-warming emissions from oil and gas operations.

EPA Administrator Scott Pruitt announced in April that he would delay by 90 days the deadline for oil and gas companies to follow the new rule, so that the agency could reconsider the measure. The American Petroleum Institute, the Texas Oil and Gas Association and other industry groups had petitioned Pruitt to scrap the requirement, which had been set to take effect in June.

Pruitt announced he intended to extend the 90-day stay for two years. A coalition of six environmental groups opposed the delay in court, urging the appeals judges to block Pruitt's decision.

In a detailed 31-page ruling, the court disagreed with Pruitt's contention that industry groups had not had sufficient opportunity to comment before the 2016 rule was enacted. The judges also said Pruitt lacked the legal authority to delay the rule from taking effect.

"This ruling declares EPA's action illegal — and slams the brakes on Trump Administration's brazen efforts to put the interests of corporate polluters ahead of protecting the public and the environment," said David Doniger, director of climate and clean air program for the Natural Resources Defense Council. EPA spokeswoman Amy Graham said the agency was reviewing the court's opinion and examining its options. The EPA could seek to appeal the matter to the Supreme Court.

Natural gas is largely made up of methane, a potent greenhouse gas that traps dozens of times more heat in the planet's atmosphere than the same amount of carbon dioxide. Environmental groups contend that actual methane emissions from leaks and intentional venting at fossil-fuel operations are many times greater than what is now publicly reported.

Oil and gas companies say they were already working to reduce methane emissions and that complying with the new rules would make many low-production wells unprofitable. Pruitt has repeatedly moved in recent months to block or delay environmental regulations opposed by corporate interests.

Prior to his appointment by President Donald Trump to serve as the nation's chief environmental regulator, Pruitt was attorney general of Oklahoma and closely aligned with the state's oil and gas industry. In recent weeks, Pruitt has moved to scrap or delay numerous EPA regulations enacted during the Obama administration to curb air and water pollution from fossil fuel operations.

Oil could hit $60 before year-end: Barron's, citing Citi analyst

Accelerating world oil demand and reduced supply from the Organization of the Petroleum Exporting Countries (OPEC) could push crude prices up to $60 a barrel before the end of the year, according to a report from Barron's.

The report cites research from Citigroup senior energy analyst Eric Lee, who previously called for a bear market in oil when the price was above $100. The decline in recent weeks to a low of just over $44 for Brent crude LCOc1, the international benchmark, has made Lee a short-term bull, Barron's notes.

Lee projects demand of 97.3 million barrels a day in 2017, a record high, up from 96 million in 2016, driven largely by emerging market countries such as China and India. Simultaneously, reduction in supply from OPEC of about 0.7 million barrels a day versus the 2016 average should drive the price up before the end of the fourth quarter.

A decline in global oil inventories began after the first quarter, and Lee projects that it will continue at an accelerated rate through the end of this year.

Oil prices settled nearly 3 percent lower on Friday as rising U.S. production and an increase in OPEC exports to a 2017 high cast doubt on efforts by producers to curb a persistent glut. [O/R] On Friday Reuters data showed that OPEC production is now at the highest level of the year.

Matt Smith, director of commodity research at Clipperdata, said OPEC exports were 2 million barrels per day (bpd) higher last month than in June 2016, despite the extension of OPEC's 1.8 million bpd production cut.

Lee notes that oil speculators ignored details of OPEC's agreement, which ordered cuts to begin at the end of 2016 rather than when the accord was announced. That allowed participants to ramp up production during negotiations, which meant the cuts were struck from a higher base.

As for supply from the United States, Lee says continued pumping by producers will keep prices from skyrocketing back towards $100 a barrel, but their presence is unlikely to prevent an upward move in oil for the remainder of the year.

Following the jump to $60 Lee expects prices to remain flat heading into 2018, as the supply side catches up with demand. Barring major political disruptions from petroleum-producing nations, he expects the price of crude probably will not rise much above $60.

Oil Majors Face Ratings Cuts Amid Weak Recovery, S&P Global Says

Exxon Mobil Corp., Chevron Corp. and other oil majors could see their credit ratings slashed again if they fail to cut costs and reduce their growing debt loads in the next year, according to an S&P Global Ratings report.

The world's largest drillers failed to take advantage of high prices during the boom years before 2014 to repay debt, according to the report published. Instead they embarked on costly investments in new projects and dividends, leaving them unprepared for the painful downturn that ensued.

Now, a weak recovery in oil prices is making it harder to reduce the debt accumulated in recent years. Exxon last year lost the platinum credit rating it held since the Great Depression, and all of its largest rivals, including Total SA, BP Plc, and Royal Dutch Shell Plc also faced similar reductions. Further downgrades could become more likely later this year or in 2018 if oil prices remain below $50 a barrel, the report said.

"Instead of deleveraging in the good times, debt levels were actually increasing," Paul B. Harvey, an analyst at S&P Global in New York, said in a telephone interview. "When they entered 2015 and 2016, their balance sheets weren't as in line as they were historically to handle lower prices."

West Texas Intermediate, the U.S. benchmark, closed at $45.04 a barrel in New York on Tuesday. In August 2013, WTI traded as high as $112.24. The prices fell as low as $26.05 in February 2016.

Get-Out-of-Jail

"The modest improvement in oil prices this year reflects the support from the OPEC and Russian agreement to constrain production," Simon Redmond, director of corporate ratings for commodities at S&P, wrote in the report. "But it hardly offers a get-out-of-jail-free card for ratings."

S&P warned Exxon seven weeks ago that the explorer's balance sheet was under strain, degrading the oil producer's outlook to negative. The rating company said it worried Exxon may "prioritize capital spending, acquisitions or shareholder returns over debt reduction."

Total, Exxon, and Chevron face the greatest danger of a ratings cut, given their elevated debt loads and lackluster efforts to curtail investments and dividend payouts. An exception to the trend is Shell, the only company among the five to receive a positive outlook from S&P. Shell outperformed its peers last year, putting it in a better position than its rivals to cut costs as prices remain low.

An agreement by the Organization of Petroleum Exporting Countries to cut production is proving unable so far to significantly raise prices and diminish a global supply glut. Oil companies may choose to prioritize debt reduction by selling off assets and winding down long-term investments, Harvey said. Alternatively, they could seek more acquisitions to lock in profitability at lower prices, such as BP investing in fields in continental Africa.

"The course that companies choose, as much as the oil price, could signal at what level ratings should most appropriately capture the credit risks for these massive groups," Redmond said in the report.

US approves Alaska offshore drilling from gravel island

Petroleum exploration has largely ceased in federal waters off Alaska but an Italian multinational oil and gas company has received permission to move ahead with modest drilling plans on leases sold in 2005.

The federal Bureau of Ocean Energy Management announced conditional approval of an exploratory drilling plan submitted by Eni US Operating Co. Inc., part of Eni S.p.A.

The company plans to drill four exploration wells from the Spy Island drill site, an 11-acre (.04-square kilometer) artificial gravel island constructed in state of Alaska waters 6 to 8 feet (1.8 to2.4 meters) deep. It's one of four artificial islands in the Beaufort Sea off Alaska's north coast that support oil production.

Former President Barack Obama last year banned oil and gas exploration in most of the Arctic Ocean. President Donald Trump in April ordered Interior Secretary Ryan Zinke to review the ban with the goal of opening offshore areas. Environmental and Alaska Native groups in May sued to maintain the ban.

Environmental groups say potential Arctic Ocean spills put polar bears, bowhead whales and other marine mammals at risk.

Eni's leases would have expired at the end of 2017, said Kristen Monsell, an attorney for the Center for Biological Diversity, in a prepared statement. Eni's plan calls for extended-reach wells that could stretch more than 6 miles (9.7 kilometers) into federal waters.

The Trump administration provided the public only 21 days to review and comment on the exploration plan and only 10 days to comment on scoping for an environmental assessment, she said.

"Approving this Arctic drilling plan at the 11th hour makes a dangerous project even riskier," Monsell said. "An oil spill here would do incredible damage, and it'd be impossible to clean up." Personnel at Eni's office in Anchorage said they could not comment and forwarded a request for comment to company officials in Milan.

The artificial island currently supports production wells on state of Alaska leases.

The federal exploration plan proposes two extended-reach main holes and two "sidetracks" to evaluate oil and gas at federal leases. The exploration wells would begin from the island and extend to the ocean floor to the federal leases.

Armstrong Oil and Gas submitted the original winning lease bids at a 2005 federal lease sale. Eni proposes winter-only drilling starting in December and ending in May 2019.

The permit does not authorize Eni to produce oil. That would require submission and approval of a development and production plan.

BOEM

BUREAU OF OCEAN ENERGY MANAGEMENT

Oil Giants Make a Play for Millennial Hires

"This ain't your daddy's oil," the commercial proclaims, cutting to shots of spray paint being made and a wall covered in fanciful graffiti. "Oil strikes a pose. Oil taps potential. Oil pumps life."

Oil, in short, is cool, the industry's branding braintrust has declared. The 30-second spot rolled out this year is part of a broader American Petroleum Institute campaign to "raise awareness about the role natural gas and oil has in economic growth, job creation, environmental stewardship, and national security." Dubbed Power Past Impossible, the ads by the lobbying arm of America's oil giants are all about millennials, the generation of roughly 21 to 35 year olds which out-sizes any other and makes up the largest chunk of the American workforce.

"It's a shift in our messaging and our target that's been in the works for several years," says Marty Durbin, the institute's chief strategy officer. "There isn't a company out there that isn't chasing the elusive millennials."

That may be true, but there are few with the kind of uphill battle the oil industry faces in catching them. Millennials often frown on companies whose main products play a key role in global warming. A 2016 poll by the University of Texas found that 91 percent of those under the age of 35 said climate change is occurring and just over half supported a carbon tax. About two thirds of millennial-aged voters said energy issues influenced how they vote and that they plan to by an alternative fuel vehicle.

The spray paint ad, it turns out, got a decidedly mixed a reaction.

"What exactly were you guys thinking making a commercial aimed at young people," tweeted one viewer. "Every time I see it I'm reminded of how [expletive] of a resource petroleum is ecologically and how dumb it was to advertise ... that way."

Millennials prefer brands that come across as "conscious capitalists," explained Jeff Fromm, an expert in marketing to younger Americans. "Any mature industry has to think about the fact that there's a new sheriff in town with new values, new spending habits," he added, referring to millennials. "Legacy brands often have that challenge."

Beyond reintroducing the brand, the Big Energy ad blitz has a more daunting task: convincing millennials to work for the industry. In the coming years, fossil fuel companies expect "to see a big turnover, sometimes called 'the big crew change,'" Durbin says. "We started to reach out to different demographics—women, veterans, minorities—to educate them on what the industry does and to learn what would pique their interest."

Getting millennials to take these jobs, which tend to pay well but come with their own risks, won't be easy for an additional reason. Unemployment is at a 16-year low and talented engineering graduates are flocking to Silicon Valley for internships and first jobs that pay more than the median national wage. This adds even more pressure on the oil industry to spiff up its image, insofar as it can, to lure young workers with lots of choices.

"Oil and gas companies may need more profound changes to meet demands for meaningful work and social responsibility to attract the next generation of top engineering and leadership tal-

Oil Giants Make a Play for Millennial Hires

Continued from page 14

ent," McKinsey & Co. wrote in a September 2016 report on the future of the oil sector. Asking a millennial to choose between a green-tech company like Tesla Inc., which makes cars that don't pollute, and an oil company, which fuels those that do, is a difficult proposition.

The consulting firm found 14 percent of millennials would reject a career in oil because of the industry's image. That's the highest of any industry it polled. Only 2 percent of American college graduates list the oil and gas sector as their first choice for a job, according to research by Accenture, a professional services company.

Even among those unsure of their path, the news isn't good. Less than half of millennials without a set career find appeal in oil and gas, according to the recently released EY U.S. Oil and Gas Perception poll. Women were more likely to reject the industry than men. And its only going to get worse as time goes on: The generation after millennials, commonly referred to as 'Z', turned their nose up at oil jobs even more frequently.

Part of the issue, EY found, was a disconnect between what millennials want from a job and what oil executives think they want—and it has nothing to do with the environment. Asked what they prioritize in a job, 56 percent of millennials said salary, followed closely by work-life balance, job stability, and job happiness. Industry executives thought far more millennials were driven primarily by salary, an anachronistic viewpoint that may illustrate the generational challenge faced by their branding campaign.

Millennials have a similarly dated outlook. EY found they view the oil industry as packed with roughnecks, and the work as "blue-collar, dangerous, and physically demanding," despite much of the sector being office-based and engineering-focused.

In a recent report, Accenture said most sectors facing a professional talent crunch can rely on new college graduates to fill vacancies.

"That's not the case for oil and gas operators," the firm said. "Many millennials believe the sector is lacking innovation, agility, and creativity, as well as opportunities to engage in meaningful work."

At the very least, this perception is what the American Petroleum Institute says it hopes to change. "Millennials are interested in innovative, high technology industries," Durbin says. "If they don't have that view of our industry, we have the opportunity to change that. If you want to go into high-tech engineering, look at our industry."

Durbin concedes the ad campaign won't change the mind of every millennial. "There are those out there who we are never going to get," he says. "There are some who are going to say 'I don't like the industry.'"

But Durbin, and oil companies in general, may be happy with just letting people know there are jobs to be had, even if the campaign invites abuse from some young people who see fossil fuels as a blight.

"It's a very different flavor from what we had done before," Durbin says. "It's gotten people talking."

BP CEO says he's not expecting big rise in oil price, says market balanced on a daily basis

Despite recent volatility in the price of oil, the CEO of BP believes the market is currently balanced and production is meeting demand on a daily basis.

"I think everyone uses the word balanced and they forget that it means different things to different people. To me, it means on a daily basis production and demand is equal. So on a daily basis, the market is balanced, it's just the inventory levels in the world that are so high," Bob Dudley, chief executive officer of BP told CNBC on Wednesday.

Oil prices were higher on Wednesday after a drop in U.S. fuel inventories and a cut in the U.S. government's forecast for output in 2018. The commodity moved lower on Tuesday after reports that Saudi Arabia had produced above its output gap. In June, oil reached a 7-month low on a bearish U.S. inventory report.

The current flow of data has led to an ongoing volatility. According to Dudley, markets need to stop taking into account data on a weekly basis.

"You can't do it weekly, which is what the market is doing, particularly focusing on the U.S. inventory levels," he added.

Brent was up by 1.5 percent being sold at $48.27 and WTI jumped 1.7 percent being sold at $45.83. BP's Dudley told CNBC that the company will plan for an average of $50 a barrel in the next five years, but as it puts its books in order, it will only need a crude price of $30 a barrel to cover spending and dividends.

"For us, we're going to plan around ($)50 for five years, get the discipline and the capital discipline in place, get our costs down and we will get our break-evens well into the 30s," he said. BP is trying to raise output and keeping capital spending at no more than $17 billion to shore up its position after the 2010 oil spill in the Gulf of Mexico.

An OPEC-led deal to freeze output and to boost market prices has also been affecting oil moves recently.

Kazakhstan, for example, has said it wants a gradual exit from the OPEC's output cap deal. The country, just like Russia and other OPEC members, pledged to reduce output until March of next year. Moscow has also indicated that it is ready to assess new proposals to revise the OPEC deal if needed.

Such comments cast doubts over the stability of the deal.

"I think it's way too early," Dudley said about the continuity of a freeze in output. "We won't actually know until March of next year," he said.

OPEC ministers met in Vienna on July 24th.

Letter to the Editor

AMERICAN PETROLEUM INSTITUTE

Dear SSDA-AT,

Summer driving season is officially here. More than 34 million Americans hit the road over Memorial Day weekend – up by 800,000 compared to 2016, according to AAA. Drivers continue to benefit from affordable gasoline prices, saving over $550 at the pump in 2015.

But fuel choice – not to mention Americans' wallets and engines -- could be in danger unless the broken Renewable Fuel Standard (RFS) is fixed.

The RFS requires annual changes to the amount of ethanol in the nation's fuel supply, and failure to adjust a decade-old policy to 2017 market realities could cause problems for drivers.

One of those realities is America's emergence as the world's leading producer and refiner of oil and natural gas, which has helped lower net imports of crude to their lowest levels since 1985. U.S. gasoline demand has been declining, too. It's 10 percent lower today than EIA projected it would be back when the RFS was enacted. Lower demand coupled with rising RFS ethanol mandates risks breaching the ethanol blend wall, where more ethanol is required than can be safely blended as the E10 gasoline that's standard across the country.

But about 85 percent of vehicles on the road today are not manufacturer approved to use higher ethanol blends like E15 (15 percent ethanol fuel), which extensive testing by the Coordinating Research Council (CRC) -- the gold standard in vehicular research for the better part of a century -- has determined could damage engines and fuel systems many vehicles on the road today.

Further, the Congressional Budget Office found that forcing ethanol consumption to statutory levels could cost consumers an additional 26 cents per gallon – confirming the worries of 74 percent of American voters who agree that federal regulations could contribute to increased costs at the pump.

Forcing additional ethanol into the fuel supply could crowd out ethanol-free fuel that many consumers seek for boats, lawnmowers, classic cars, motorcycles and power equipment. It's no wonder 68 percent of voters are concerned about the government requiring increased amounts of ethanol in gasoline.

U.S. success as the world's leading producer and refiner of oil and natural gas has helped advance the primary goals the RFS was designed in 2007 to achieve. Increases in domestic production have helped drive down energy imports, fuel costs and – through greater use of clean-burning natural gas – greenhouse gas emissions. Cleaner gasoline and diesel fuels produced by America's world class refineries, in combination with more fuel-efficient vehicles, have contributed to a 70 percent reduction in U.S. air pollutants since 1970, even as vehicle miles travelled have increased by more than 180 percent.

No one wants their summer road trip to end in the mechanic shop. Protecting consumers from outdated, unreasonable ethanol mandates should be a top priority for Congress and the EPA.

Sincerely,

Jack Gerard
President and CEO
API

Oil companies' Focus on Natural Gas May Fall Apart

Oil majors have been shifting their focus to natural gas, which they tout as the fuel of the future, but gas could be displaced by the rise of cheaper renewables.

Gas' share of global power generation is seen dropping from 23% in 2016 to 16% in 2040 as building new onshore wind and solar capacity will likely become cheaper than running existing coal and gas plants by the late 2020s, according to Bloomberg New Energy Finance.

US rig count falls by 1 to 940

The number of rigs exploring for oil and natural gas in the U.S. fell by one this week to 940.

A year ago, just 431 rigs were active.

Houston oilfield services company Baker Hughes said Friday that 756 rigs sought oil and 184 explored for natural gas this week.

Among major oil- and gas-producing states, Texas gained one rig. Alaska and Colorado each lost one.

Arkansas, California, Kansas, Louisiana, New Mexico, North Dakota, Ohio, Oklahoma, Pennsylvania, Utah, West Virginia and Wyoming were unchanged.

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Published monthly by the Service Station Dealers of America and Allied Trades, ©