

# Three Unconventional Truths



By John Harpole

Here's an unconventional truth to consider: The U.S. doesn't need a national energy policy. The nation has a perfectly good "policy" embedded in the Founding Fathers' dual concepts of a free market and private ownership of property. That combination of ideals—unique to the U.S.—may change the world in the best way possible, by setting a praiseworthy example for other countries to follow.

Consider what might have happened if seven years ago someone had assembled the greatest experts on energy and assigned them the task to create a U.S. energy policy. Do you think they would have come up with the unconventional oil and natural gas solution known as the U.S. shale revolution?

## Mercedes Binz

Ron Binz, the Obama Administration's former nominee to become chairman of the Federal Energy Regulatory Commission (FERC), is a firm believer that a handful of experts are smarter than the collective, individual decisions of an entire society.

He often complained that the U.S. lacked a national energy policy. Ron earned the nickname "Mercedes Binz" for his penchant for German-style command and control over all things related to energy.

By any measure, the German national energy policy is broken. Some Germans describe their electricity supply as a luxury good as they pay the highest electricity rates in Europe.

Is the rejection of Mercedes Binz a sign that our elected officials now understand what our Founding Fathers knew 240 years ago? Do they realize that a free market is more economically valuable than the theoretical insight of a regulator-turned-legislator?

Here's some math to consider: The U.S. is on pace to surpass Russia as the world's top energy producer sometime this year.

That statistic is quite a convenient reality with far-reaching global implications. However, some governments consider the U.S. shale revolution disruptive technology. That attitude is prevalent among foreign gas producers such as Gazprom, which is Russian President Vladimir Putin's cash cow.

To Russia and Gazprom, energy is a financial weapon, a tool for extracting what they want from neighboring countries. In this past decade, Gazprom, the world's largest gas producer, has interrupted gas supply to Europe more than 100 times.

Russia tipped its monopoly hand five years ago in Tehran when it formed a gas cartel with Iran and Qatar. Apparently, Iran and Qatar endorsed Russia's timing for contract renegotiating, typically executed in the dead of winter. They must have hoped to apply that timing and leverage to international liquefied natural gas (LNG) markets as well.

However, that gas cartel wasn't counting on the U.S. shale gale that virtually blew across the Atlantic Ocean, with pricing that is

far more comfortable than Russian gas prices in those sub-zero northern European winters.

Much of the decline in Gazprom's value is attributable to competitively priced international LNG supplies finding their way to European ports. Clearly, competition is a good thing for European consumers, but not necessarily for Gazprom. Gazprom's value has fallen from a \$389 billion market cap in 2008 to \$83 billion today.

## Super abundance

Here's a second unconventional truth: The shale gas revolution has created a super-abundance of gas in the U.S. that undermines all sustainability models. Those models that have been force-fed to the world for the past four decades are predicated on the assertion that there are too many people and not enough resources.

Drilling sideways through source rock may have forever changed the scarce-resource side of their sustainability argument. In an effort to sustain their unsustainability discourse, they will have to create reasons to oppose fracking, the game-changer for U.S. production.

The U.S. State Department has undoubtedly heard whispers of concern from our Middle Eastern friends about the implications of the U.S. shale revolution. Apparently, folks on the other side of the globe worry that the concept of mutual need disappears in the new world of U.S. energy independence.

## U.S. exceptionalism

The common thread through these unconventional truths is lost on most policy makers. That common thread is directly related to private ownership of property, specifically private mineral rights that are unique to the U.S. thanks to our Founding Fathers' foresight. They saw the value in letting individuals determine what to do with their land.

Anyone with a 10-minute understanding of recent U.S. energy history knows that thousands of individual private-property owners made the shale revolution possible when they chose to lease their lands to entrepreneurs.

And the final unconventional truth? The shale gas revolution could not have happened in any other country with the same depth, breadth and speed.

You see, Mr. Putin, the U.S. is exceptional and unique. We live by example not by words. We willingly provide the intellectual capital and means to produce super-abundant energy. ■

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