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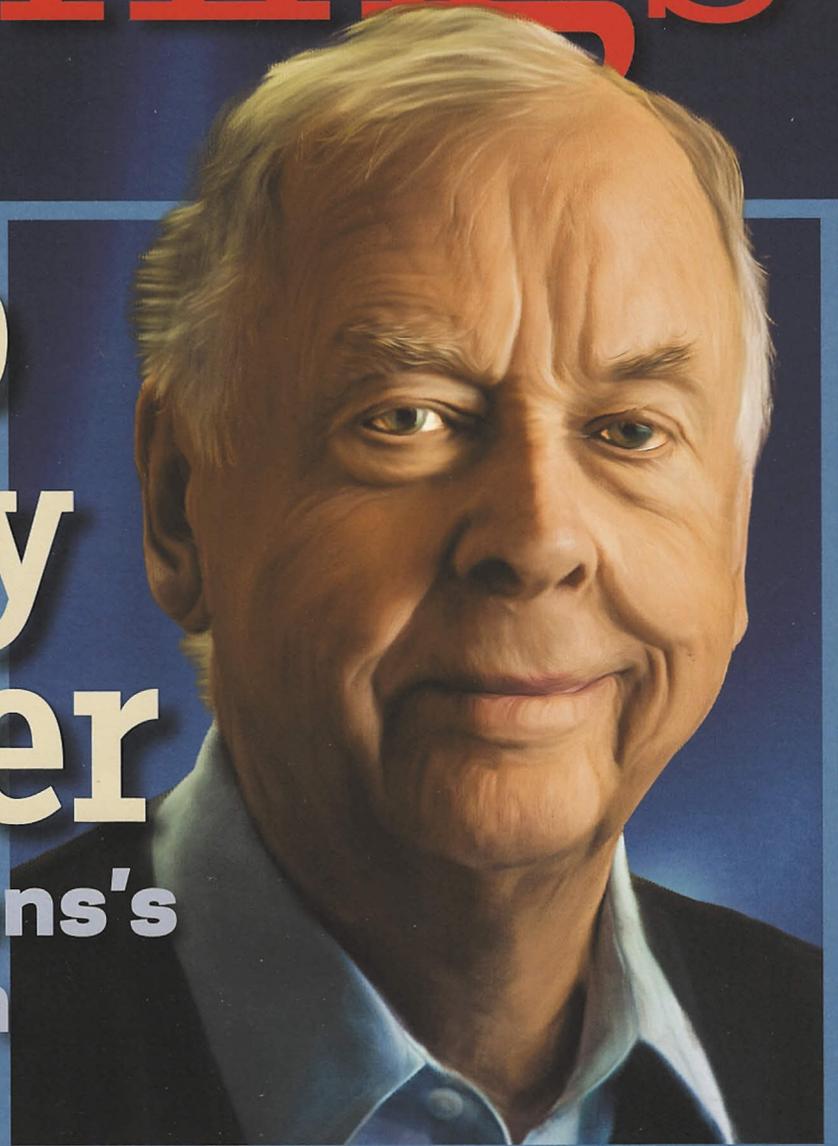
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# Briefings

## Cheap Energy Forever

Boone Pickens's  
Newest Plan



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# Boone Pickens's Newest Plan

**T. Boone Pickens, 84, doesn't do anything halfway.**

Born in Oklahoma and raised in Texas, Pickens followed his father into the oil business. Pickens studied to become a geologist and started his career in the early 1950s, working for Phillips Petroleum. He soon learned working for Phillips — or anyone else, for that matter — didn't fit his outsized personality and bold dreams. By the mid-'50s, Pickens struck out to begin building what would become Mesa Petroleum.

In the 1960s, his company was growing fast — but not fast enough for Pickens. He began buying shares of another company, Hugoton Production, which was many multiples of his own company's size. At first, the board at Hugoton did not take Pickens's overtures seriously. But serious they were, and by decade's end Pickens's guppy had swallowed

Hugoton's whale. Mesa was on its way to becoming one of the largest independent oil and gas companies in the United States. After the acquisition, Pickens, like many another rich Texan, decided to enter the cattle business. He did it the Pickens way — acquiring a feeding and watering operation capable of handling 160,000 head of cattle at a time. “Small” is not a Pickens word.

In the 1970s and '80s, Pickens became a corporate raider, launching takeover battles for large companies, including Phillips Petroleum, where he had worked. He also made a run at Gulf Oil, Cities Service, Unocal, Newmont Mining and Diamond Shamrock. And while these companies got away, he was rewarded handsomely for his efforts. It is no surprise that the title of his autobiography is “The First Billion Is the Hardest: Reflections on a Life of Comebacks, and America’s Energy Future.” After a stint as an acquirer, Pickens started an investment firm.

Pickens has not been in it just for himself. He is committed to the environment, investing hundreds of millions of dollars in wind energy and natural gas, publicizing it as “the Pickens Plan.” As a philanthropist, he has given away more than \$600 million, with plans to give away more than \$1 billion.

Pickens is not afraid to state his opinions. What follows is an edited version of a conversation between T. Boone Pickens and Joel Kurtzman, editor-in-chief of *Korn/Ferry Briefings on Talent & Leadership*. The interview took place in Laguna Beach, Calif.

**“I don’t want any money from the government. Industry will pay for it because it’s profitable all the way down the line. And it’s cheaper than diesel.”**

**You have a plan to use natural gas in transportation for long-distance trucks and other heavy-duty vehicles. Who will pay for that?**

**PICKENS:** For sure not the government. I don’t want any money from the government. Industry will pay for it because it’s profitable all the way down the line. And it’s a cheaper fuel than diesel. We have a company called Clean Energy that provides it, and in 2013, a new 12-liter engine for heavy-duty trucks is coming out. That engine was the missing link. They already have 9.8- and a 15.2-liter engines, but 12 liters are optimum for natural gas.

**Wouldn’t the big win be using natural gas in passenger cars?**

**PICKENS:** Why?

**Because there are a lot of cars in the United States and they use a lot of fuel. And since a good share of American homes have natural gas piped in, people could fill their cars at home. And natural gas is a much cleaner fuel than gasoline. Don’t you think those are compelling reasons?**

**PICKENS:** Yeah, no question. All of those are winners. But when it comes to home fueling you don’t use enough fuel to make it worthwhile. If you use 500 gallons a year and the device you put in your garage to fill your car costs \$4,000, that’s a little bit expensive. And so, in my plan, that comes later when the equipment is better. I have one of those units in my garage.

**Do you like it?**

**PICKENS:** It worked fine, but I changed cars, so I don’t use it.





**What about filling stations?**

**PICKENS:** There are already 1,500 stations in the United States where you can get natural gas fuel.

**Isn't that a small percentage of filling stations?**

**PICKENS:** That's why I say, you press first to do heavy-duty trucks. Once that's accomplished, then you'll start to see the whole thing come together.

**Given how much natural gas we have in the U.S., why hasn't it moved faster?**

**PICKENS:** Because I've been a crummy salesman, and I'm the only one trying to sell it right now.

lion vehicles, it'd take you 10 years or longer. And you don't do it by converting existing passenger vehicles to start with. You do it with new cars — when you sell your car and buy a new one, you get one that uses natural gas.

**What are the other steps?**

**PICKENS:** My pitch to Obama was first, you announce that all federal government vehicles would run on domestic resources. They told me this point would be in the State of the Union speech. That way you leave it open to natural gas, electricity and batteries, and so on. I mean, we're not trying to pick winners, but we are trying to use our own resources. That's what my pitch is. So the federal vehicles start us on the



**You certainly put it into people's consciousness with your speeches, ads and editorials for the Pickens Plan. Do you think people are paying attention now?**

**PICKENS:** Yeah. But look, the only reason it'd happen and people would be using natural gas in their cars is if people made money off of it. Somebody's got to make money or they don't fill in their link in the chain, and it all breaks down. So my view is, if you're going to do the whole country, all 250 mil-

learning curve about what's the best fuel for our fleet. And that's how you figure out how to do it. Then I said six months after that, you go back to the American people and say, "Look, the federal fleet mandate worked." You might want to give some kind of tax credit for people to do it, but the idea is to keep it simple. So, the speech is, "We need to get on our own resources in this country, and as president of the United States, I'm going to come to you individually and hopefully

you'll follow my lead, so the next car you buy would be one that uses domestic resources." That's my pitch. And you could get families around the table and have them all talk about which kind of vehicle they think is best — batteries, natural gas, ethanol, all of them — and have each family member research it so when they went out to buy their next car, they'd be doing it together. It'd draw people together around this issue. But the bottom line is this: If you don't pick a domestic energy source, it means you're picking OPEC, because those are the only two choices.

#### **You've been called a legend in the energy industry...**

**PICKENS:** You know what the definition of a legend is, don't you? It's somebody who's 75 years old and still has a job.

**Point taken. But you really are a legend. You started one of the most successful independent oil companies, led some well-publicized takeovers, began a corporate governance movement, started a successful hedge fund, were a pioneer in wind energy, and now you're focusing on natural gas. Sounds like a legend to me.**

**PICKENS:** I even did some offshoots from wind. That cost me \$150 million.

#### **Why is that?**

**PICKENS:** Only one reason. It's oversupplied.

#### **Why is there an oversupply now? Is it because of hydraulic fracturing technology, fracking?**

**PICKENS:** Well, when it comes to fracking completions, the cost of wells is higher everywhere else in the world than the United States. It's cheaper here than any place else, so you get more supply. We should take our hats off and thank the oil and gas industry in America. They've gotten us the cheapest energy in the world. But no one in government has the guts to say this industry's done a pretty damn good job.

#### **Do you subscribe to the idea that because of fracking there's an energy revolution under way in the United States?**

**PICKENS:** The simple answer is no. And, by the way, I saw fracking going on in Texas in the '50s. Look, the United States has always had natural gas. It's always been there and it's always been oversupplied. That's why it's never sold at parity with crude oil on a price basis. Parity would be a price of 6 to 1 against oil, given the energy it possesses for a given volume. But I've never seen it better than 10 to 1, and today it's 20 to 1.

**"What we've got is a situation in the U.S. where the superior end of the chain sells at a discount to the competition, which is crude oil. Isn't that something?"**

#### **Is it correct to say you don't think wind energy is an opportunity right now?**

**PICKENS:** That's right. And do you know why wind doesn't work?

#### **Why?**

**PICKENS:** Because it's priced off the margin, and the margin is natural gas. So, if in the U.S., natural gas is trading at \$6 a thousand cubic feet (MCF), that makes wind work. But if natural gas is at \$4 a MCF, it kills wind. It's that simple.

#### **Natural gas in the U.S. has been trading at very low levels — as low as between \$2 and \$3 a MCF, recently.**

**PICKENS:** Well, right now, we're back up to \$3.75 a MCF. And, when you look at what natural gas really is, it gets interesting. See, natural gas happens to be the superior end of the hydrocarbon chain for environmental and energy reasons. It's a pretty clean fuel, compared to all the others. So what we've got is a situation in the U.S. where the superior end of the chain sells at a discount to the competition, which is crude oil. Isn't that something?

#### **Do you anticipate natural gas prices in the U.S. falling further?**

**PICKENS:** Again no.

#### **Why is that?**

**PICKENS:** Simple. In the U.S., we've gone from 1,600 rigs drilling for natural gas down to 400. Natural gas production is in decline again in the United States — for a while, because of oversupply.

#### **So the rig count is down because of low prices resulting from oversupply?**

**PICKENS:** You got it. Like I said, when there's that 6-to-1 parity with crude oil on a price basis there's a lot of reason to drill. Right now, at 20 to 1, there's no reason to drill more wells. I've seen the ratio as close as 10 to 1, when we had \$100 oil and \$10 natural gas. But there isn't anybody today who's predicting \$10 natural gas. There's nobody today even predicting \$8 natural gas. They quit drilling because, at \$3 a MCF for natural gas, nobody can make any money.

**At what price point will they roll out the rigs again?**

**PICKENS:** When you have \$5 natural gas, you'll see activity. When you have \$6 natural gas, you will see full action. You know why all this is happening?

**No, tell me.**

**PICKENS:** O.K. I will. You know what mineral rights are?

**The right to own what's under the ground.**

**PICKENS:** Exactly. But did you know there's only one place in the world that has freehold mineral rights? It's the United States. In the rest of the world, the government owns all the mineral rights. So ask yourself, what impact does the right to own mineral rights have? Because these rights are freehold and you and I can buy them, half of the 4 or 5 million wells drilled in the world have been drilled in the United States. That's because of our freehold mineral rights.

**The International Energy Agency recently projected that the United States would become the world's largest oil producer sometime around 2030, as a result of fracking shale oil. Do you see that happening?**

**PICKENS:** No.

**Why is that?**

**PICKENS:** I just don't know where all that oil — more than 10 million barrels a day — is going to come from. I don't see enough oil reservoirs available to us for that to happen. Now, to be honest, did I foresee what has taken place in the last 10 years with regard to production from oil source rock and shale? The answer is, no, I didn't see that. And I don't want to tell you I saw something coming if I didn't. But I have seen a lot of things coming — and I've seen a lot of things going, too. And regarding oil, I just don't see the U.S. becoming the world's No. 1 producer. But, if you take all of North America together — Canada, the United States and Mexico — that's a different story. If that group of countries works together, then yes, we can become energy and oil independent on a North American basis. But here's the deal. If you were president, and you saw the United States had this kind of resource potential, and you looked around the world and saw how good countries look financially if they're operating on their own energy resources, you just might think, "Hey, this is a real simple way to solve our country's problems." Right? Let's just use our own energy resources. Just doing that would cut

two-thirds out of our trade deficit, which goes to purchasing foreign oil. And if you look at Australia and Canada — they're both living off their own resources, producing their own oil and gas. And they're doing just fine. But that's not what the administration is doing.

**There's a lot of volatility in natural gas prices. Is that normal?**

**PICKENS:** Sure. If you go back and look at natural gas prices, they've never been smoothed out or stable. They're volatile. You get into critical weather, draw down your storage for natural gas, and prices go up. You fill up your storage in the fill season, which starts in March and goes through October. When you get your storage filled, prices come down. Natural gas is volatile. On the other hand, look at oil. Oil's been pretty stable for the last two, three years, around \$100.

**Companies are planning roughly 85 new job-creating manufacturing projects in the U.S. worth at least \$60 billion, due to low natural gas prices. Do you think that level of investment will continue if natural gas rises to, say, \$5 a MCF?**

**PICKENS:** Oh yeah. Even at \$5, natural gas in the U.S. is the cheapest fuel in the world. If you look at natural gas prices today in Japan, they're \$16 to \$18. In Beijing, they're \$15. In the Middle East, they're \$14, in Europe, \$13, and in the U.K., they're \$10. Here, they're under \$4. Because of those prices, you're going to have industries moving back to the United States because the fuel's so cheap here. And it's a better place to do business.

**These new plants are expected to create tens of thousands of new jobs.**

**PICKENS:** That's why I say, you'd think that this administration would look at some of these things and say, "Gosh, we should hug up this industry, because the oil and gas industry is putting us back on our feet."

**What should the Obama administration do?**

**PICKENS:** Get up and say we have the cheapest energy in the world and we're going to support the industry because we want manufacturing to come back to the United States. It's just good business. I've said it before, this administration, and almost all previous administrations, don't understand our energy portfolio.

**"I just don't see the U.S. becoming the world's No. 1 producer. But, if you take all of North America together — Canada, the United States and Mexico — that's a different story."**

**You're a proponent of using natural gas for transportation. What happens if prices for natural gas rise?**

**PICKENS:** Let's say you use natural gas as a transportation fuel in trucks, and let's say it is \$4 a MCF. Now, if you compare diesel to natural gas on a gallon basis, if natural gas is selling at \$4 a MCF, it would be the same as \$2-a-gallon diesel fuel. But diesel fuel sells for over \$4 a gallon, so natural gas is a lot cheaper than diesel — about half the cost. Now, if natural gas went to \$8 a MCF, it would be the same as diesel fuel selling for \$2.50 a gallon. But since diesel is selling at \$4 a gallon, natural gas is still \$1.50 a gallon cheaper even at \$8 a MCF.

**You've been outspoken about the true cost in blood and treasury of defending Middle East oil. How dependent on the Middle East is the U.S.?**

**PICKENS:** Do you know how many barrels a day come through the Straits of Hormuz?

**No.**

**PICKENS:** Then I'll tell you — 17 million barrels a day. You know how much of that comes to the United States? Only 2.25 million barrels a day. During the elections the president said, "I can tell you this. We're going to get off of oil from the Middle

East." Well, since we're only getting 2.25 million barrels a day from the Middle East anyway, we can cover that with our domestic resources right now. That will give us the option to move the Fifth Fleet out, and our people out of the area. We spent \$1.5 trillion on the Iraqi and Afghan wars, and lost 7,000 of our people with 40,000 injured — and we use very little oil from the Middle East. So if I were running for president of the United States and you elected me, I would stop using oil from the Middle East. Completely.

**What about OPEC?**

**PICKENS:** Well, we're importing 4.5 million barrels a day from OPEC. The part of OPEC we're importing from includes Nigeria, Venezuela and Angola. If I were president, I'd move to get out of that, too. But I'd make getting out of the Middle East my first move so we can get our people out of the harm's way. Like I said, we can do North American energy independence. Between Canada and Mexico, we're getting about 5 million barrels a day of the roughly 9 million barrels a day we're importing.

**Some people are suggesting the U.S. should begin exporting natural gas. Is that wise?**

**PICKENS:** I'm not big on exporting natural gas, but you have to give producers of natural gas an opportunity to sell their

Courtesy of Choice Environmental of Florida



product into the best market for the best price. Getting into the export market requires liquefaction, and it requires transportation. When you add those costs in, you're going to run up the price to \$8 or \$9 an MCF.

**Isn't that still cheaper than what people are paying anywhere else in the world?**

**PICKENS:** Well, it is. But I would rather develop demand in the United States than export natural gas. See, if you're going to use natural gas for transportation in the U.S., and you're serious about it and you want to go beyond using it just for heavy-duty trucks, you'd likely run up the price of natural gas to around \$6 a MCF. So if you want to export and you add in the cost of liquefaction and transportation, you're now talking about \$11 natural gas.

**Throughout your career, you've put a lot on the line — in business, even in politics, and with your plan. And, typical of entrepreneurial ventures, not everything worked. What's your attitude about failure?**

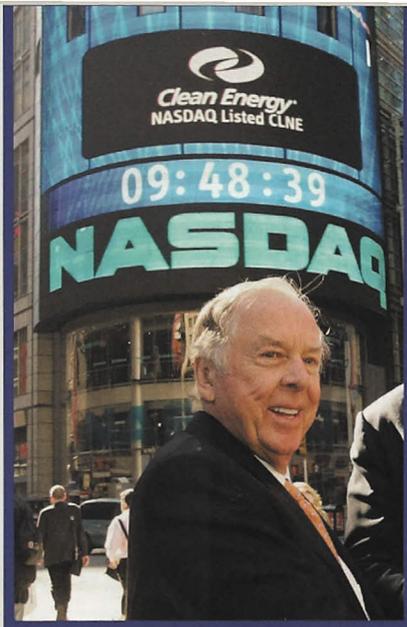
**PICKENS:** Everyone's failed. I said in my book, "You better not ever forget how to eat a hamburger because there will be days when you're sure not going to be eating sirloin steak. You're eating a hamburger and damn glad to have it." So you'll miss, and you'll lose, and you'll fail, but you've got to just get up and start grinding again. And some people can't stand that. They can't have had a period of success and then lose it. It drives them crazy to do it.

**Is the ability to tolerate failure innate in people?**

**PICKENS:** Yeah, I think so, yeah. For instance, I've been up and I been down. I was up to \$5 billion net worth, then I went back to \$1.5 billion before you could say "Jack Robinson." That was in 2009. I haven't recovered from that yet. I'm still worth over \$1 billion, but I haven't been able to move the peg back up.

**How did that feel personally?**

**PICKENS:** It hurt. It stung, it really stung. I didn't feel good at all. And I felt very stupid, too, at my age — I was 80 years old — that I would let it happen to me, with as much experience as I'd had. I mean, it didn't exactly catch me by surprise, but I was sitting there, and the counterparty to me on some com-



**"You'll miss, and you'll lose, and you'll fail, but you've got to just get up and start grinding again."**

modities deals was Lehman. They owed me \$2 billion, and I sat at the meeting and I said, "You know, probably the smart thing to do is let's just call it all in and quit." But we decided to wait a few more days, and it was disaster. Lehman never paid off. They owed me \$300 million.

**But you're still thinking intensely about the future and how to make tomorrow better than today, aren't you?**

**PICKENS:** Hell yeah, but I'm getting shorter-term.

**How do you mean that?**

**PICKENS:** The last really long-term deal I made was I bought 156,000 acres of mineral rights in the Marcellus shale formation knowing full well that it was a 100-year play and it probably would not do much for 10 years. I knew that that was my last really long-term deal.

**Is everything now short term?**

**PICKENS:** Shorter term, but not short term.

**Suppose a young person came up to you and said, "I want to be the next Boone Pickens, because you've been so successful in so many different areas." What would you tell them?**

**PICKENS:** It's pretty simple. I've been asked the question many times. I said I consider myself to be an average person. Intelligence average, other skills average, so how do I get away from the crowd? How do I move out? One, develop a work ethic early, which I did. And two, get a good education. Now, you need to ask yourself, "What is it I want to accomplish?"

But you say you want to be me? Well, this is what I told a high school graduating class in Alexandria, Va. I said, "You're sitting there and you're getting tired of hearing me talk, but I'm going to make you an offer now." And I said, "So listen very carefully to me." And the class really listened. And I said, "I will trade seats with any one of you. You get to be me. You get the ranch. You get the airplane. You get the bank account. You're worth a lot of money," and then I looked at them. "But the other part is I get to be you. I'm 18 years old, and I'm headed for college. Now you're rich. And of course, we know we can't do it. But I want to tell you how valuable your chair is. It's a lot more valuable than my chair." And so I said, "You have to do it, nobody can do it for you."