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**Pickens Power Makes Al Gore Convenient Truth in U.S. Oil Policy**

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By Kambiz Foroohar



Oct. 7 (Bloomberg) -- Trim and tanned at 81, **T. Boone Pickens** leans forward in his swivel chair to better hear **Al Gore** exhort solar and wind power. It's a scorching August day at the **National Clean Energy Summit** in Las Vegas. Pickens, who has made and lost billions betting on energy in his boom-and-bust career, waits with **Democratic Party** bigwigs for his turn to speak. His topic: why the U.S. must wean itself from foreign oil.

It's a far cry from the wildcatter turned corporate raider and backer of fellow Republican oilman **George W. Bush**, who downplayed global warming as U.S. president. Now Pickens has ingratiated himself not only with environmentalists but with the Democrats who derided him. The reason: his **Pickens Plan**, which embraces natural gas and wind power and which proponents say would cut oil imports and curb air pollution in the process.

"A year or so ago, I started taking missionary lessons from the group supporting T. Boone Pickens," Democrat **Harry Reid** told the 900-strong audience.

Reid, the U.S. Senate majority leader, had called Pickens his "mortal enemy" for funding **Swift Boat Veterans for Truth**. The group's attack ads helped sink the presidential bid of Massachusetts Senator **John Kerry** and hand Bush a second term from 2005 to 2009.

"I now belong to the Pickens church," Reid said. "He's been a good friend and a real visionary."

By dint of his plan, which Pickens has scaled back to focus on using natural gas to power the nation's 6.5 million diesel-burning heavy trucks, he has transformed himself into an unlikely environmental hero. Pickens says the U.S. can save 2.7 million barrels of oil a day, more than half of the 4.3 million barrels a day it imported from OPEC in June.

**Bipartisan Support**

After spending \$60 million and taking a yearlong swing across America, Pickens has amassed enough support to persuade both Republicans and Democrats to propose legislation that gives incentives for **natural gas vehicles** and fueling stations.

An energy **bill**, with bipartisan backing, is likely to pass in some form, increasing U.S. interest in natural gas, says **Scott Deatherage**, a partner at Thompson & Knight LLP in Dallas, who advises corporations on environmental regulation.

People who see only Pickens's past need to get beyond that and look at his ideas, says **Dan Weiss**, senior fellow at the **Center for American Progress**, a policy group founded by **John Podesta**, former President **Bill Clinton's** chief of staff.

"His plan is on the right track," Weiss says. "Pickens has gotten off oil, and his plan will reduce foreign oil consumption and clean the air."

**Oil Spike**

Pickens warns that oil may reach \$150 a barrel in the next two years as economic activity rebounds to pre-recession levels. The petroleum industry will have trouble raising production fast enough to meet demand, he says. And even if it could, that would mean the U.S. would continue funding foreign governments by buying their output.

"Show me another country where they import 70 percent of their oil and over half

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comes from their enemy," Pickens says, counting Iran, Saudi Arabia and Venezuela among the foes. "This is the largest transfer of wealth in human history."

Pickens says natural gas can move America toward energy independence. He cites statistics from the nonprofit **Potential Gas Committee**, an affiliate of the Colorado **School of Mines**, which indicate that the U.S.'s supply can last 100 years. Gas produces as much as 30 percent less carbon dioxide than oil when burned, according to the **U.S. Energy Department**.

"Natural gas is clean, it's cheap and it's ours," Pickens says.

#### Financial Interests

The U.S. consumed about 19.5 million barrels of oil a day in July, more than 23 percent of the daily global supply, the Energy Department says. Americans' petroleum obsession forced the U.S. to import 9.6 million of those barrels each day in July and another 2.6 million barrels a day of gasoline, kerosene and diesel. Such imports **cost** \$439 billion last year, according to the Commerce Department, up from \$319 billion in 2007.

Not everyone is convinced that Pickens has abandoned his old maneuvers. Critics say he wants to shore up his investments and is cloaking his strategy in the American flag.

For one thing, he holds a 33 percent stake valued at about \$275 million in **Clean Energy Fuels Corp.**, a Seal Beach, California-based company he founded. The company, which runs 184 natural gas **filling stations**, would benefit from proposed federal legislation for which Pickens has lobbied.

#### Gore Co-Investments

Pickens also owns 5 percent of **Exco Resources Inc.**, a Dallas-based natural gas explorer. And he's backing **V Vehicle Co.** with venture capital firm **Kleiner Perkins Caufield & Byers**, where former U.S. Vice President Gore, who won the 2007 Nobel Peace Prize for his work on climate change, is a partner. San Diego-based V Vehicle plans to build environmentally friendly cars and may consider natural gas at some point.

"The Pickens Plan is nothing more than a call to rig the market toward the fuels that Pickens has invested in," says **Jerry Taylor**, a senior fellow at Washington-based research group **Cato Institute**.

Pickens, who built his company, Mesa Inc., by buying small businesses and undervalued oil and gas properties, has never lacked for big plans. In 1982, he made a bid for Cities Service Co., more than 20 times Mesa's size. Cities accepted a white-knight offer from Gulf Oil Corp., which later became another Pickens target.

#### Ousted from Mesa

Mesa made a profit on its Cities shares, whetting Pickens's appetite for the takeover game. He launched more deals, developing a reputation as a greenmailer, who profits from buying enough shares to threaten a takeover and forcing the target to buy the shares back to stop the acquisition.

As natural gas prices plunged in the late 1980s and 1990s, Mesa wound up with \$1.2 billion of debt. Pickens reached out to billionaire **Richard Rainwater**, who forced Pickens out as a condition of helping Mesa refinance. Pickens went on to start hedge fund firm BP Capital Management LP in north Dallas.

**Ken Medlock**, an economics professor at **Rice University** in Houston, says Pickens has found ways to succeed in the past and is doing what savvy businessmen do.

"Pickens is not going to invest large sums of money in projects that are not going to generate large sums of money for him," Medlock says.

Pickens counters that his main motive is U.S. security. "If it had been about money, heck, I'd have just kept my \$60 million and played the market," he says.

#### Momentum Lost

Big U.S. corporations are taking steps in Pickens's direction. **AT&T Inc.**, the second-largest U.S. mobile phone carrier, pledged to switch 15,000 vehicles, or about 20 percent of its fleet, to ones powered by alternative fuels, mainly compressed natural gas. **Wal-Mart Stores Inc.**, the world's biggest retailer, is testing natural gas vehicles that could replace light trucks.

Pickens and his plan face major hurdles. The tumble in oil prices to \$33.87 a barrel last December from a high of \$145.29 in July 2008 has damped public outrage about imports. Congress, once revved up over green energy, is struggling with health-care legislation. With average U.S. gasoline prices around \$2.50 a gallon (3.8 liters) in early October, momentum for a natural gas car has slowed, says **Richard Kolodziej**, president of **Natural Gas Vehicles for America**.

"People care about the environment but act on economic incentives," he says. "When gas hit \$4 a gallon, our phones were ringing off the hook."

#### 'A Lot More Investment'

Natural gas has environmental and economic drawbacks. U.S. **output** has been steady at about 19 trillion cubic feet (538 billion cubic meters) a year for the past five years.

The Pickens Plan may require an additional 20 billion cubic feet a day to wean heavy trucks off diesel. That would mean adding about one-third more gas to current output at a cost of more than \$20 billion during the next five years, says **Greg Ballheim**, a director at **Pace Global Energy Services**, which advises on energy investments.

"You need a lot more investment to get the extra production," he says.

Companies are using extraction methods, particularly one called hydraulic fracturing, to target harder-to-reach **gas** in such states as Colorado, Louisiana and Pennsylvania. This gas, which is lodged in shale rather than limestone, costs about \$6 per 1 million British thermal units to produce. On Oct. 6, the price of gas was \$4.89 per million Btu, down from \$13.58 in July 2008. For drillers and bankers to profit, prices would have to rise.

#### Environmental Concerns

Hydraulic fracturing, which involves pumping a mixture of water, sand and chemicals into the earth, can harm underground water supplies. **Diana DeGette**, a Democratic congresswoman from Colorado, is sponsoring the Fracturing Responsibility and Awareness of Chemicals Act, which would establish federal controls and require drillers to disclose the chemicals they use. Should rules become stricter, companies may shut a third of onshore gas wells, Ballheim says.

"We may end up relying on natural gas imports, and then all you're doing is replacing one import with another," he says.

Hurt by last year's financial crisis, Pickens has reduced the other part of his plan: wind.

In 2007, he put up \$150 million to buy 667 turbines to seed what he said would be a \$10 billion wind farm, the world's largest. In addition, he envisioned turbines churning away from Texas to the Canadian border to run electricity plants. Wind power would free the natural gas that produces 22 percent of U.S. electricity to instead fuel clean-running cars, he said.

#### 'Wind Is a Business'

The problem turned out to be price. In general, wind power is more expensive than natural gas and coal. For electricity plants coming on line in 2015, wind energy would cost almost one-third more than coal and about 14 percent more than natural gas, the nonprofit **Electric Power Research Institute** says.

Wind power becomes relatively cheaper as gas prices rise. As a rule of thumb, when natural gas is more than \$6 per million Btu, a wind plant will look competitive in comparison, says **Mark Bolinger** at the Energy Department's **Lawrence Berkeley National Laboratory**. Once gas falls below \$6, as it has, wind isn't as attractive.

"Wind is a business, and if the economy comes back, then the project goes ahead," Pickens says, figuring a growing economy would boost gas prices, making wind competitive. "If not, then we won't do it."

For the moment, that leaves Pickens with natural gas. He says gas can bridge the gap for diesel trucks until electric batteries -- a favorite of environmentalists -- become viable.

"An electric battery cannot run an 18-wheeler," he says.

#### Impressing Obama

Pickens took his natural gas pitch to 74 cities last year, stopping in Washington in the spring. He met then-President Bush and Energy Secretary **Samuel Bodman** at the office of **Joshua Bolten**, White House chief of staff. He drew graphs with a black marker on a whiteboard that showed global oil production at the time at 85 million barrels a day and demand at 87 million barrels.

Producers couldn't make up the difference, Pickens says he told Bush in the 90-minute session.

"He listened," Pickens recalls. "He didn't do anything." A Bush spokesman declined to comment.

It was a different story with the Democrats, Pickens says. He met then-presidential candidate **Barack Obama** at the Grand Sierra Resort in Reno, Nevada.

Pickens opted for a dramatic gesture. As he and Obama sat at a square table, Pickens whipped out his marker and drew demand and production figures on the white tablecloth.

"He's a legendary entrepreneur," Obama said later, deflecting questions from the press about the Swift Boat controversy. "One of the things that I think we have to unify the country around is having an intelligent energy policy."

### 'Strange Bedfellows'

Pickens even found an ally in Reid. In November 2007, Pickens had offered \$1 million to anyone who could dispute claims in the Swift Boat ads that said Kerry had exaggerated his military service. Kerry accepted the challenge.

Pickens required Kerry to provide his Vietnam journal, his military records and the movies he shot on patrol. Kerry didn't supply the items, a Pickens spokesman says. Kerry spokeswoman **Whitney Smith** says the senator offered to meet with Pickens but didn't get a response.

Then, in 2008, a group of veterans took up the challenge. So far, Pickens says, the veterans haven't disproved the claims in the ads and he has yet to concede the \$1 million.

Pickens and Reid covered less-controversial ground with natural gas. A scheduled 15-minute meeting in the Nevada's Senate office lasted five times that long as the two agreed that gas could trim oil imports and reduce pollution, Pickens says. As for their dispute over the Swift Boat group, Reid spokesman **Jim Manley** says the senator and Pickens are now friends.

"Sometimes politics makes strange bedfellows," Manley wrote in an e-mail.

### Traction With Democrats

**Carl Pope**, executive director of the San Francisco-based **Sierra Club**, the oldest U.S. environmental organization, says Pickens has gained traction with the Democrats.

"He has long been talking about replacing foreign oil but didn't get anywhere with the Republicans," Pope says.

Bolstered by the political thaw, Pickens provided input for a House bill sponsored by two Oklahomans, Democrat **Dan Boren** and Republican **John Sullivan**. It offers tax credits of as much as \$200 million for natural gas vehicle manufacturers.

### Nat Gas Act

On July 8, he joined New Jersey Democratic Senator **Robert Menendez** and Utah Republican Senator **Orrin Hatch** in unveiling the New Alternative Transportation to Give Americans Solutions, or "Nat Gas," Act, which Reid also sponsors. It provides a 10-year tax credit for natural gas vehicle makers and a \$100,000 credit for fueling stations, up from \$50,000.

"With only 3 percent of the world's oil reserves, we cannot produce our way to a safe and secure energy future," Reid said. "We must get serious about using cleaner-burning natural gas and renewable energy."

In 2003, Pickens gave \$1,000 to Reid's re-election committee. Pickens also donated \$1,000 to Hatch in 1988 and \$4,000 in 2005. According to the **U.S. Federal Election Commission**, Pickens has contributed more than \$5 million to Republican causes.

President Obama has said **oil independence** is a policy goal.

"We can remain one of the world's leading importers of foreign oil, or we can make the investments that would allow us to become the world's leading exporter of renewable energy," he said in March.

### Hedge Fund Meltdown

If aligning with Democrats to push natural gas isn't enough change for an oilman in his ninth decade, Pickens is also trying to restore his reputation as a hedge fund manager after making and losing billions on energy.

Until mid-2008, Pickens was riding high. BP Capital, which runs a commodity fund and an equity fund, had \$4.5 billion in assets. The commodity fund was up 37 percent in June alone, while the equity fund rose 12 percent in that month. During the summer, Pickens's third memoir, "The First Billion Is the Hardest," was climbing the New York Times nonfiction list, reaching No. 5 at the end of September.

By then, oil prices had tumbled 30 percent from their July record. Both funds had gambled that energy prices would climb.

"We didn't expect global demand to fall as much as it did," says **Brian Bradshaw**, co-manager of the BP Capital equity fund. "The recession we got is not the one we had expected."

In October, BP Capital lost \$2 billion as Pickens liquidated his positions. More than half of his investors, a number he declines to disclose, withdrew their money, he says. By the end of the year, he had less than \$500 million in the funds.

### 'Cooking Again'

"We wanted out, but we waited just a minute too long," Pickens says. "If we had done it a week before, we'd be the world's smartest people."

Last year's debacle is behind him, Pickens says. The commodity fund was up 79 percent in the first half of 2009. The equity fund, with its energy stocks, gained

14 percent, he says. "We're cooking again," Pickens says.

BP Capital General Counsel [Robert Stillwell](#) says the firm isn't preparing for life post-Pickens.

"After Boone, we'll call in the investors and ask them if they want to continue or cash out," Stillwell, 73, says. "There are no other plans."

Pickens says he has at least one more thing to accomplish. "I'm trying to fix the country," he says as he gazes at a 5-foot-tall (1.5-meter-tall) model of a turbine from the stalled wind farm part of his project.

If the U.S. passes legislation that embraces natural gas, Pickens will have succeeded in one of his most ambitious feats yet: rallying Democrats and environmentalists behind the plan of a billionaire Texas oilman.

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