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Where to invest with the U.S. on top in oil

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The U.S. is expected to become the world's top oil producer by the end of the decade, and investment opportunities abound.

By Neil Suslak, contributor

FORTUNE -- Last week, the International Energy Agency (IEA) projected a radical shift in the global energy balance of power when it announced that the U.S. is poised to become the **world's largest oil producer** by 2020.

This comes at a time when unlocking reliable sources of domestic energy is at the forefront of conversation in this country and investors continue to deploy record amounts of capital into the sector. Less than a week after the reelection of President Barack Obama and only one week before the U.K.'s Autumn Statement, which is expected to contain a proposed energy plan, the IEA's prediction – if realized – will have long-term, far-reaching implications.

The effects of this supply growth are already being experienced in domestic policy, geopolitics, corporate resources and allocation, and more. Crude imports have fallen 11% this year, and the U.S. is expected to produce the most oil since 1991. Moreover, whereas the U.S. was once expected to become a growing importer of natural gas, it is now forecast to become a large supplier of liquefied natural gas (LNG), with companies like Cheniere racing to permit and construct LNG export terminals.

There are a number of ways to capitalize on this growth. It will have a corresponding impact on the energy investment landscape, particularly around the following themes:

Broad advancements in technology

For an industry generally regarded as conservative and cautious, the current rise in domestic oil and gas production has been remarkably rapid. A number of forces have driven this phenomenon, but clearly technology developments have been among the most impactful. Significant advances in extraction technology have allowed us to remove shale gas, shale oil and heavier grades of crude out of the field more cost effectively and advances in refining technology have helped deal with the challenges associated with processing these unconventional resources.

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In particular, the sweeping rollout of hydraulic fracturing and horizontal drilling to unlock reserves of these unconventional hydrocarbon plays is turning a gas and oil deficit in the U.S. into a surplus. Yet the technological boom is broader -- focusing, for instance, on heavy oil fields, and offshore regions where drilling is challenged to go deeper and deeper. In many areas, opportunities are created everyday by technologies that can make such resources available at a competitive price. Furthermore, software has played an important role as well by increasing our ability to analyze seismic and other intensive amounts of oil field data to help producers better find, track and manage more cost effectively oil and gas assets in the field.

Investment in the space is showing no sign of abatement. From January 2011 to April 2012, upstream oil and gas companies participated in $18 billion in private equity deals – that's up from $4 billion from 2006 through 2010, according to **IHS Herold**. Part of this increase in value reflects the growth of technology, allowing for further development of such resources.

Although numerous technology advancements have already been made in exploration and production (E&P), many of these hydrocarbon resources remain costly to develop -- meaning that further advancements must be achieved in order to sustain production growth. This is particularly important if commodity prices remain suppressed, with WTI prices down over 15% this year.

Without new technologies to reduce E&P costs, the production of these new resources will become less economically viable. We are already witnessing this phenomenon with shale gas as producers increasingly shift from dry gas to liquids plays in response, in part, to the continued low prices. At the same time, these lower prices have enabled a significant build-out in ethane-based processing plants for the plastics and other downstream chemicals markets.

Increased focus on energy efficiency

Our continued reliance on fossil fuels for power and transportation will undoubtedly create opportunities in the fields of energy efficiency and emissions mitigation technology. Efficiency advancements will become even more important as we consume fossil fuels and perhaps observe a slower transition to renewables, particularly on the power side as cheaper natural gas raises the

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Although the IEA highlights the fact that the U.S. has decreased its petroleum imports, part of this drop can be attributed to a decline in U.S. consumption, which is down 8% since 2006, according to the **IEA's *Energy Outlook 2012***. In particular, a significant portion of the drop in consumption has been enabled by new technologies reducing vehicle fuel consumption in the transportation sector. Most vehicles burn less fuel than they did five years ago as new technologies allow cars to achieve more mileage per gallon and, as a result, cut their emissions as well.

So while cleantech funding (depending on how you define it) looks to be down slightly year-on-year, investment in energy technology remains robust. Although many potentially disruptive companies are sourcing venture capital, the lion's share of investment is being carried out by large energy companies from the U.S., Europe, the Middle East and other parts of Asia. Today, there is much greater interest among VCs and large energy companies to act collaboratively in investing together in emerging companies as the industry landscape shifts ever more quickly and to identify solutions to what are enormous opportunities even for a multi-national.

*Neil Suslak, Co-Founder and Managing Partner of Braemar Energy Ventures, has more than 20 years of experience in the venture capital and investment banking industries, largely in the energy space. Braemar Energy Ventures focuses on investing primarily in venture- and expansion-stage companies in the energy technology sector and partners with exceptional companies and management teams, in both alternative and traditional energy markets. Additional information is available at **www.braemarenergy.com** or on Twitter at **@BraemarEnergy**.*

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