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August 2010

A Growing Season Gone

110 Days That Shook the Obama Administration

The Political Impact of the Deepwater Horizon Oil Spill

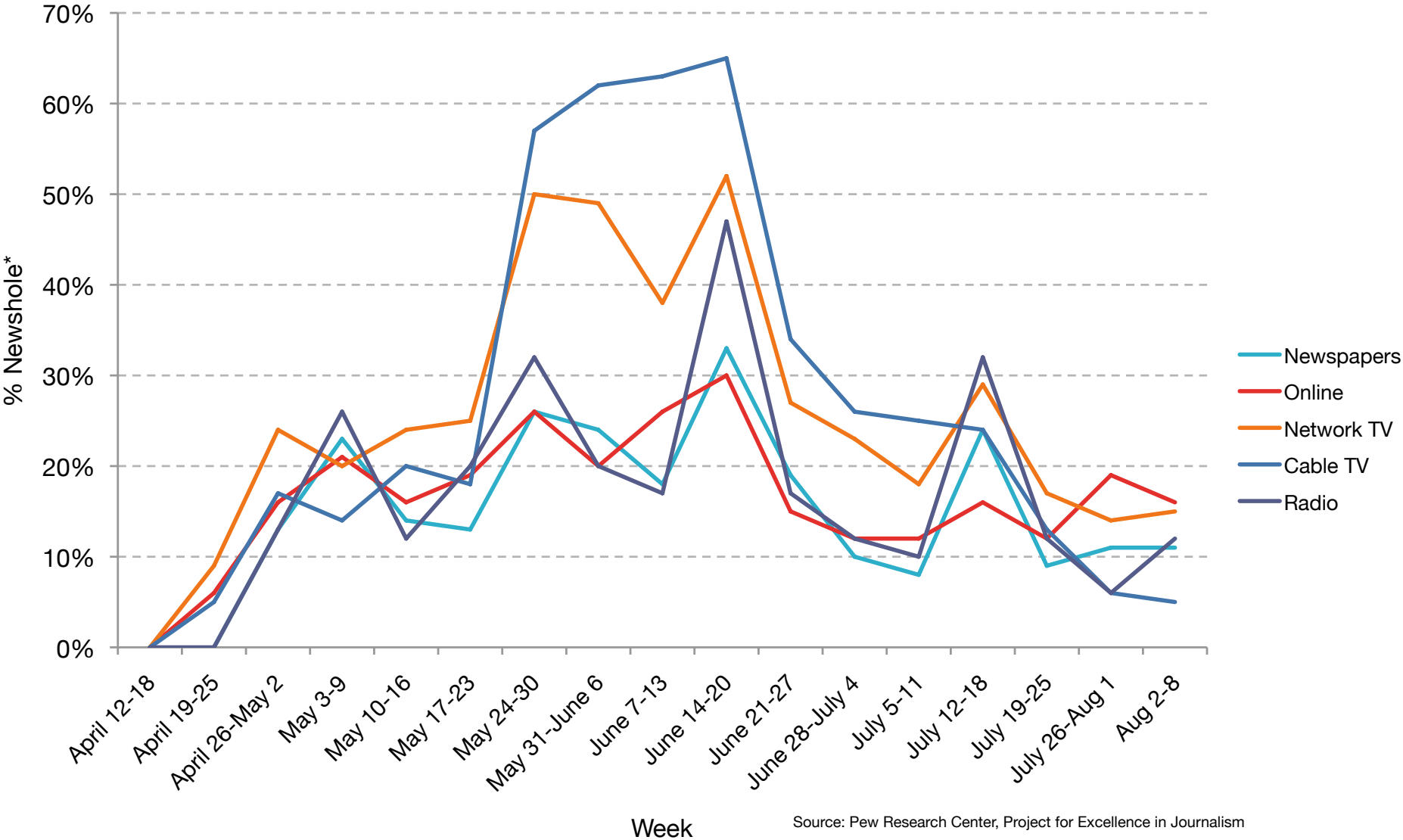
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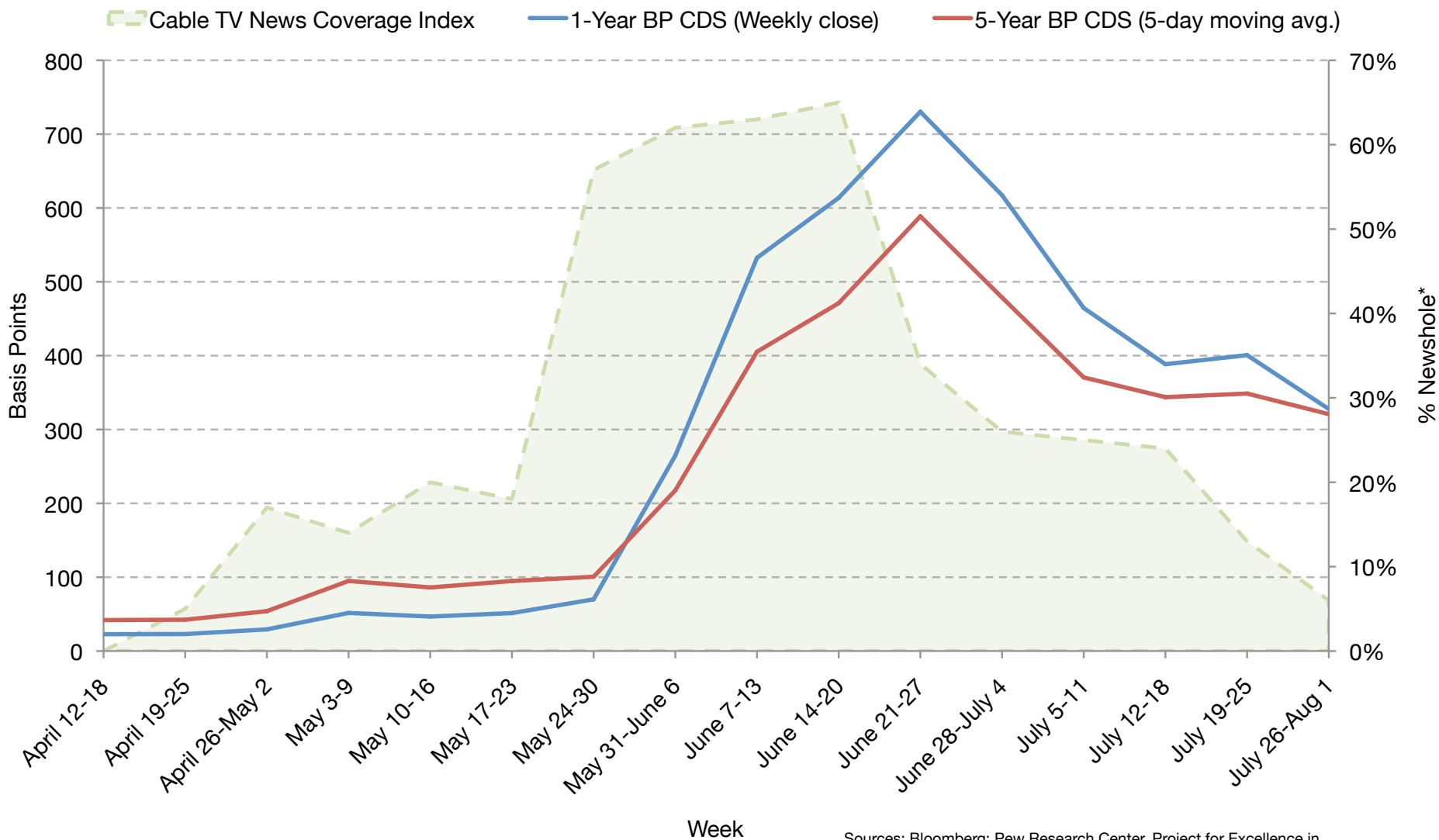
Oil Spill Media Coverage



Source: Pew Research Center, Project for Excellence in Journalism

* Percentage of total time (TV, radio), or words (Newspapers, Online) dedicated to coverage of the explosion and spill

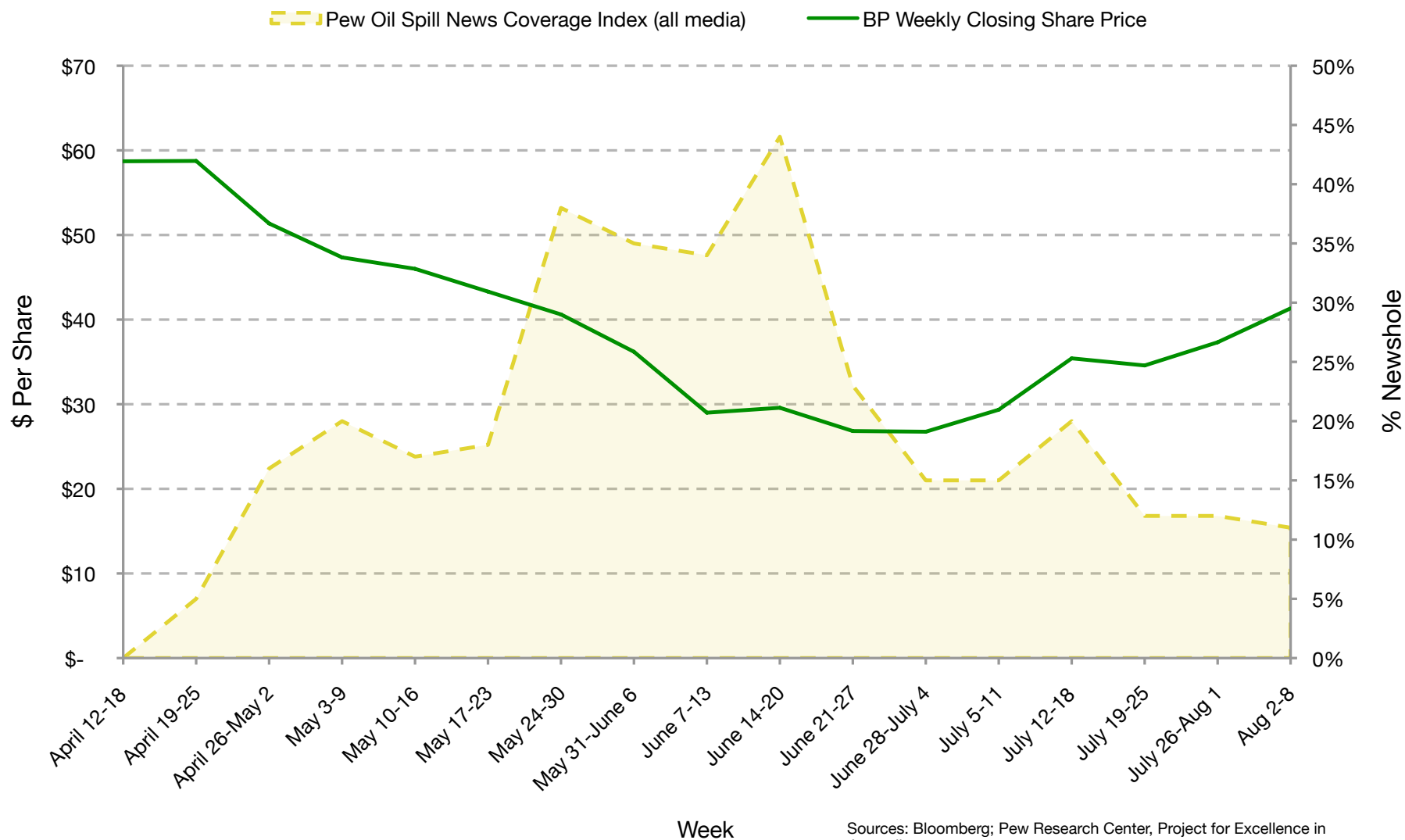
BP CDS Contracts and Oil Spill Coverage



Sources: Bloomberg; Pew Research Center, Project for Excellence in Journalism

* Percentage of total time (TV, radio), or words (Newspapers, Online) dedicated to coverage of the explosion and spill

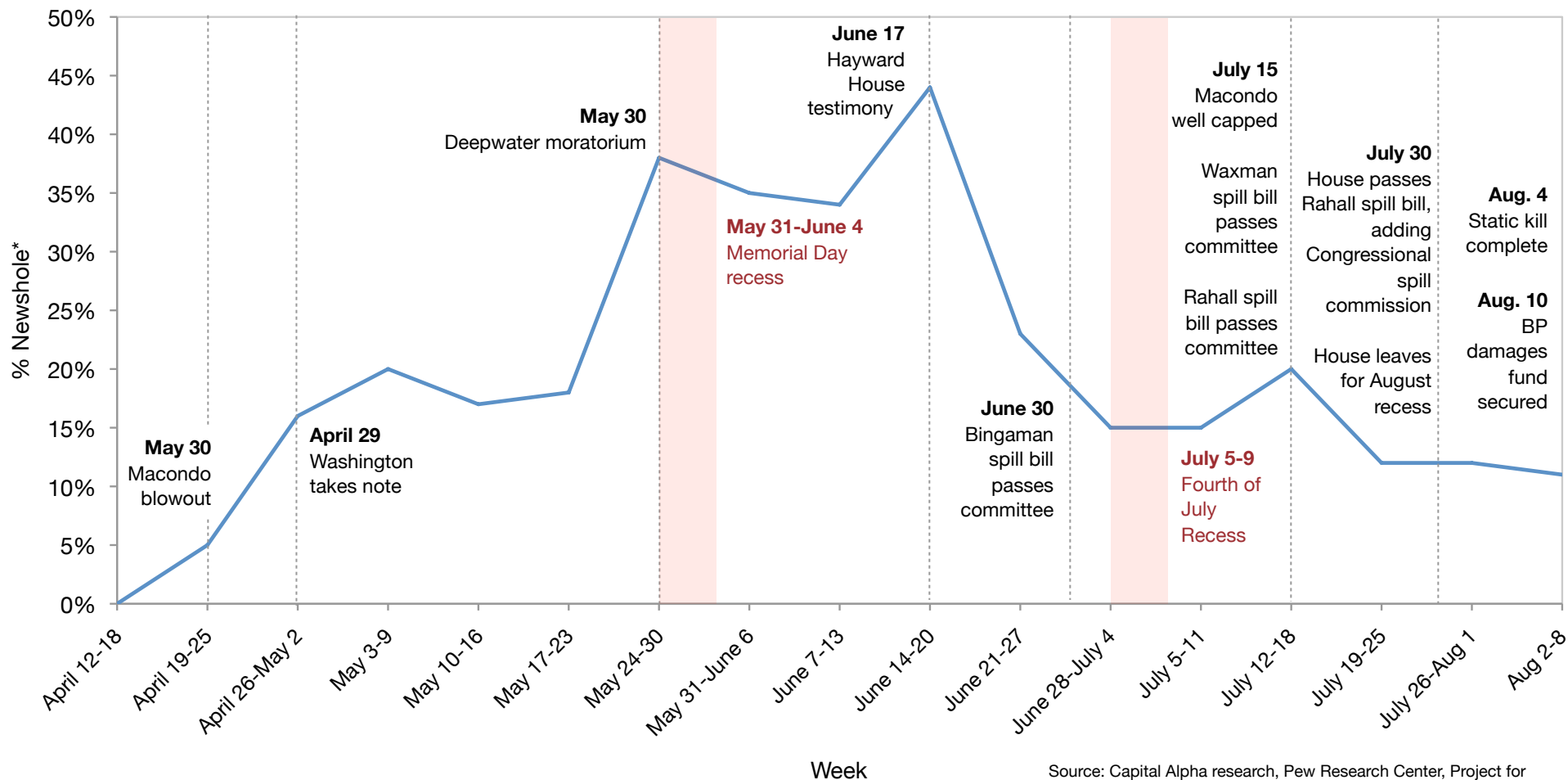
BP Share Price and Oil Spill News Coverage



Sources: Bloomberg; Pew Research Center, Project for Excellence in Journalism

* Percentage of total time (TV, radio), or words (Newspapers, Online) dedicated to coverage of the explosion and spill

Oil Spill Timeline and News Coverage



Source: Capital Alpha research, Pew Research Center, Project for Excellence in Journalism

* Percentage of total time (TV, radio), or words (Newspapers, Online) dedicated to coverage of the explosion and spill

No answer to five basic questions:

- How much oil?
- When will it stop?
- What will it cost?
- Where is landfall?
- What exactly happened and why?

- Opportunity cost, opportunity lost
- An irreplaceable cyclical moment
- Impact slight on surface, lasting impact will be deep
- Spill hardens, polarizes existing perceptions

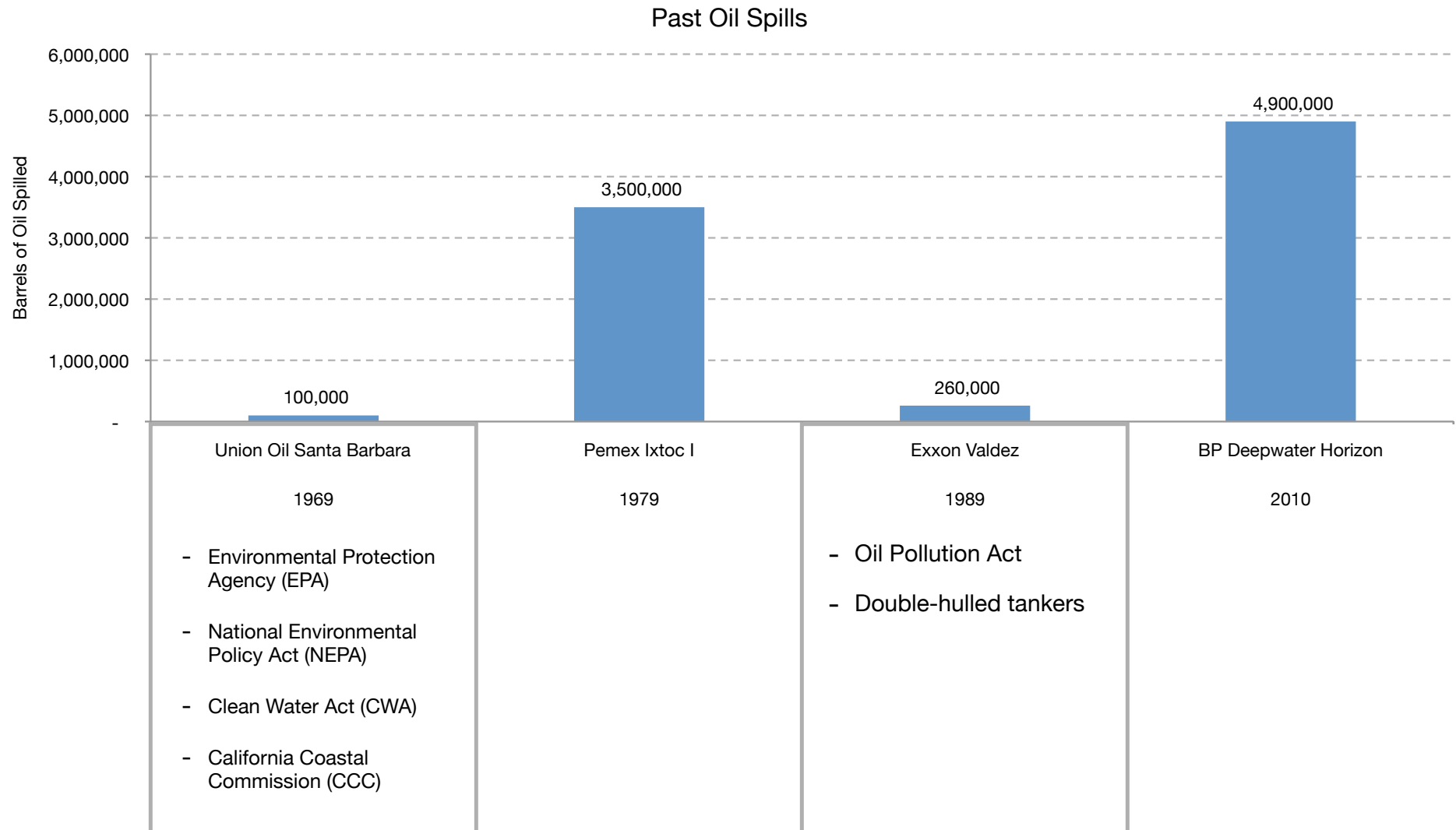
- 110 days from blowout to cement
- Trust fund established
- Consolidation of docket
- 74% of oil dispersed or removed
- 40% of fishing areas reopened

...110 days President Obama would rather have talked about something else

- 11 dead
- 4.9 million barrels
- BP costs in excess of \$40 billion
- Landfall limited
- No impact on oil and gas prices

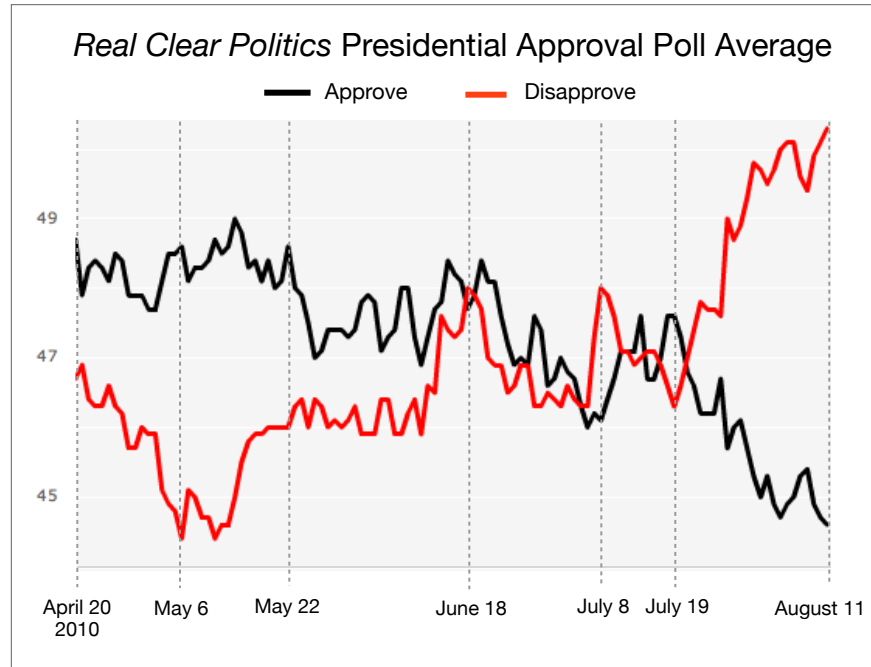
$$\frac{1.5 \text{ million barrels of oil}}{15 \text{ quadrillion barrels of water in Gulf of Mexico}} = \mathbf{1 \text{ part per billion}}$$

The Policy Impact to Prior Spills

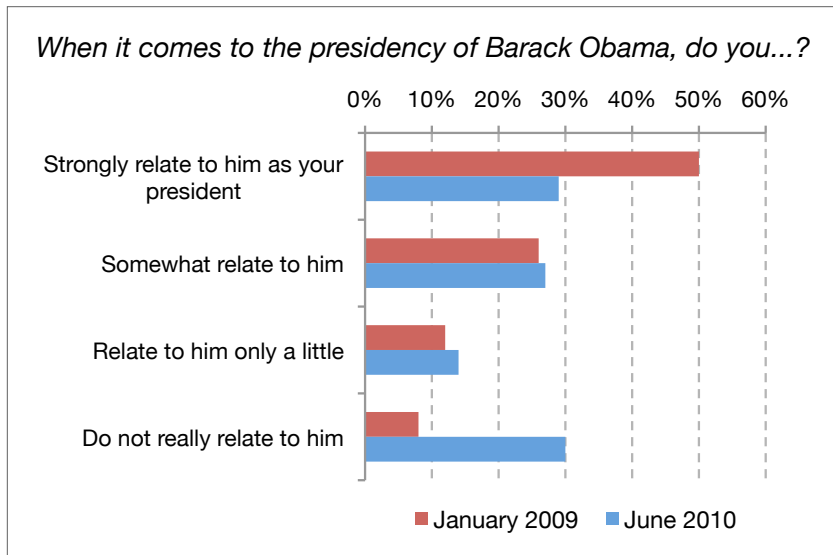


- A positive, proactive agenda to communicate
- Energize his base prior to election
- Kagan, immigration, campaign finance, healthcare defense, middle class tax cuts
- Energy agenda completely wiped out

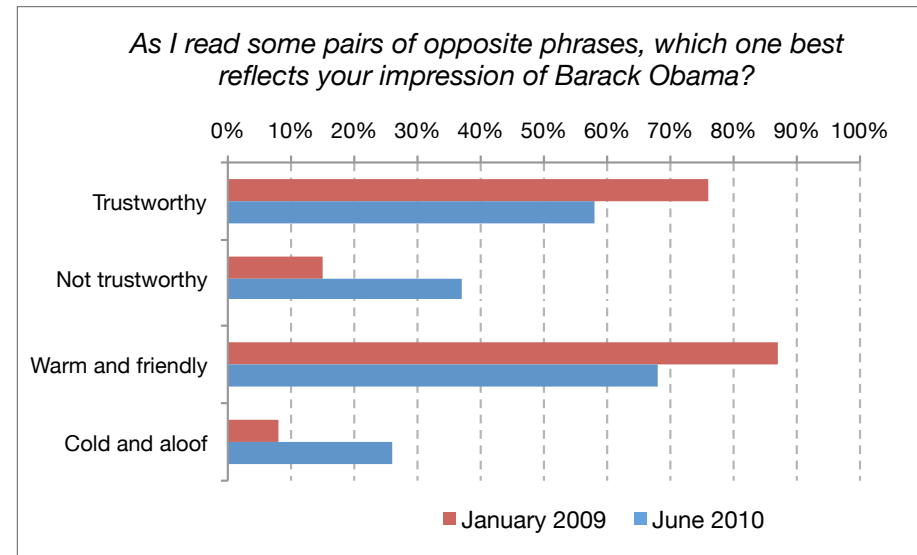
Presidential Approval Rating



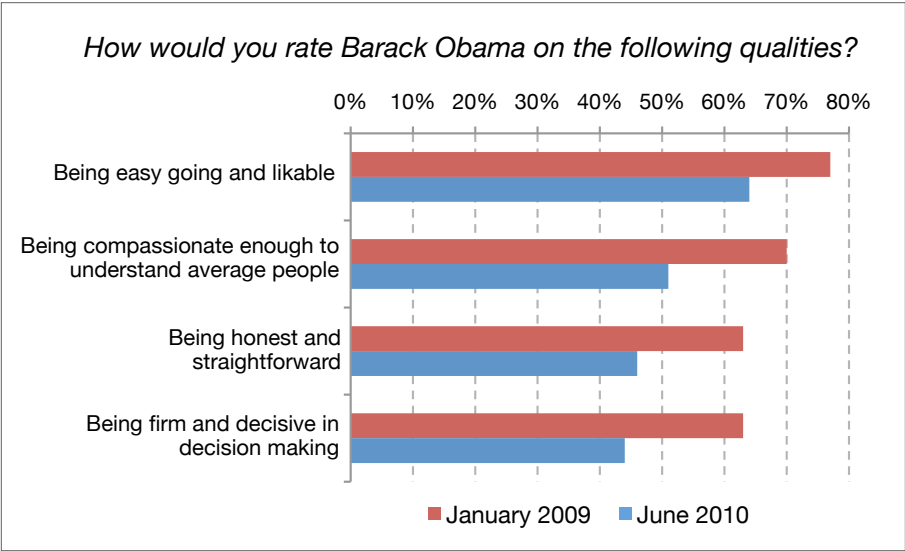
Source: Real Clear Politics



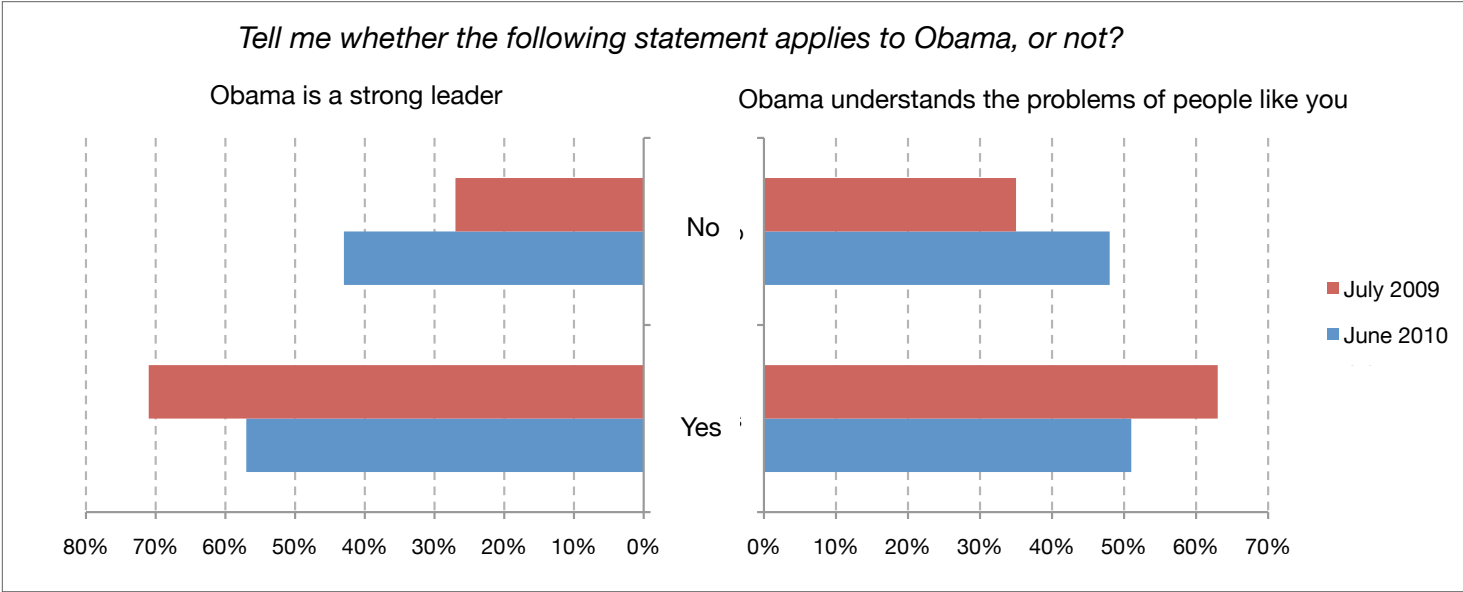
Source: NBC/Wall Street Journal Poll, June 17-21, 2010



Source: PSRA/Pew Poll, June 2010



Source: NBC/Wall Street Journal Poll, June 17-21, 2010

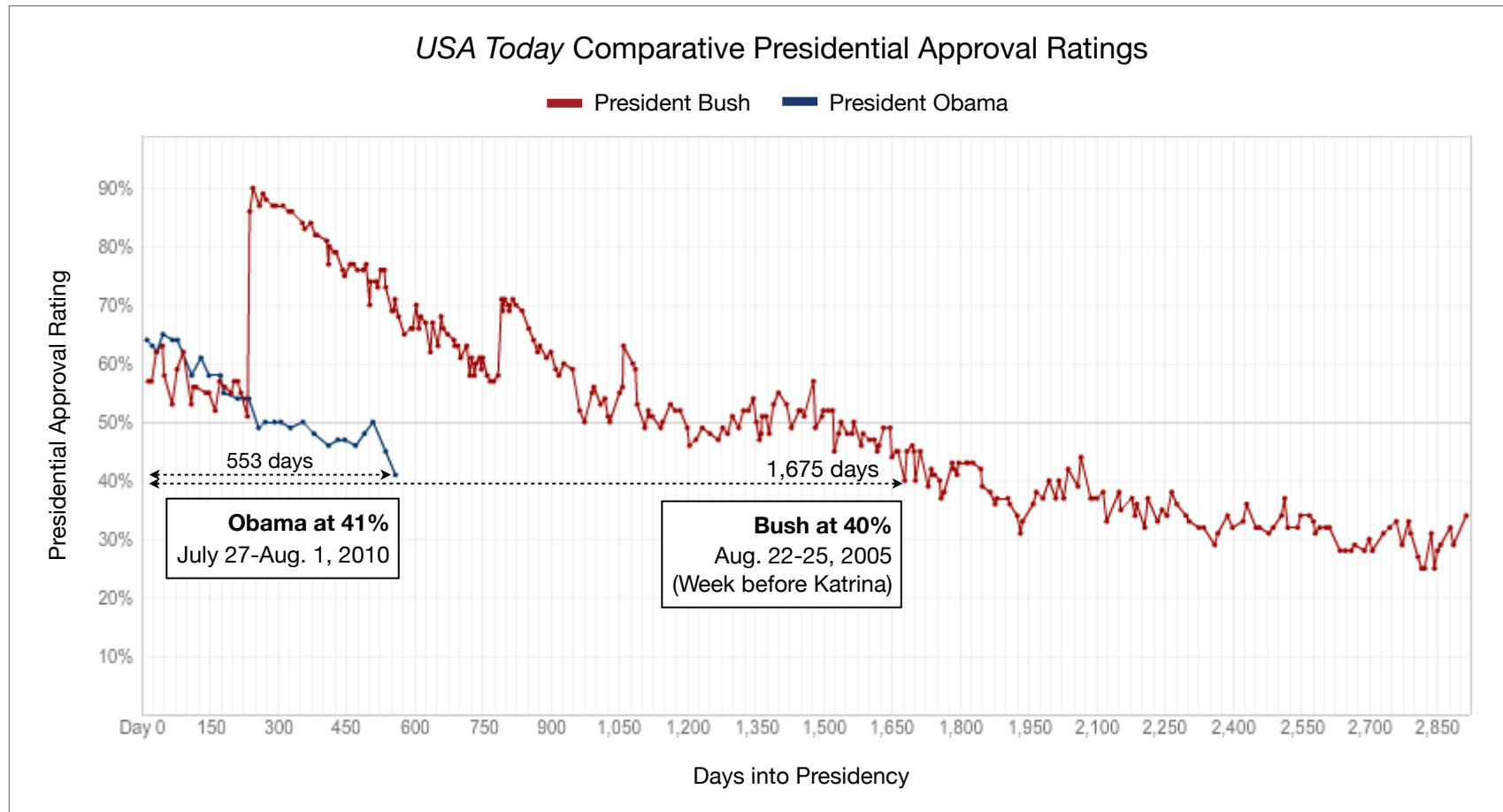


Source: ABC/Washington Post Poll, June 3-6, 2010

A bigger disaster (in human terms) at a worse time

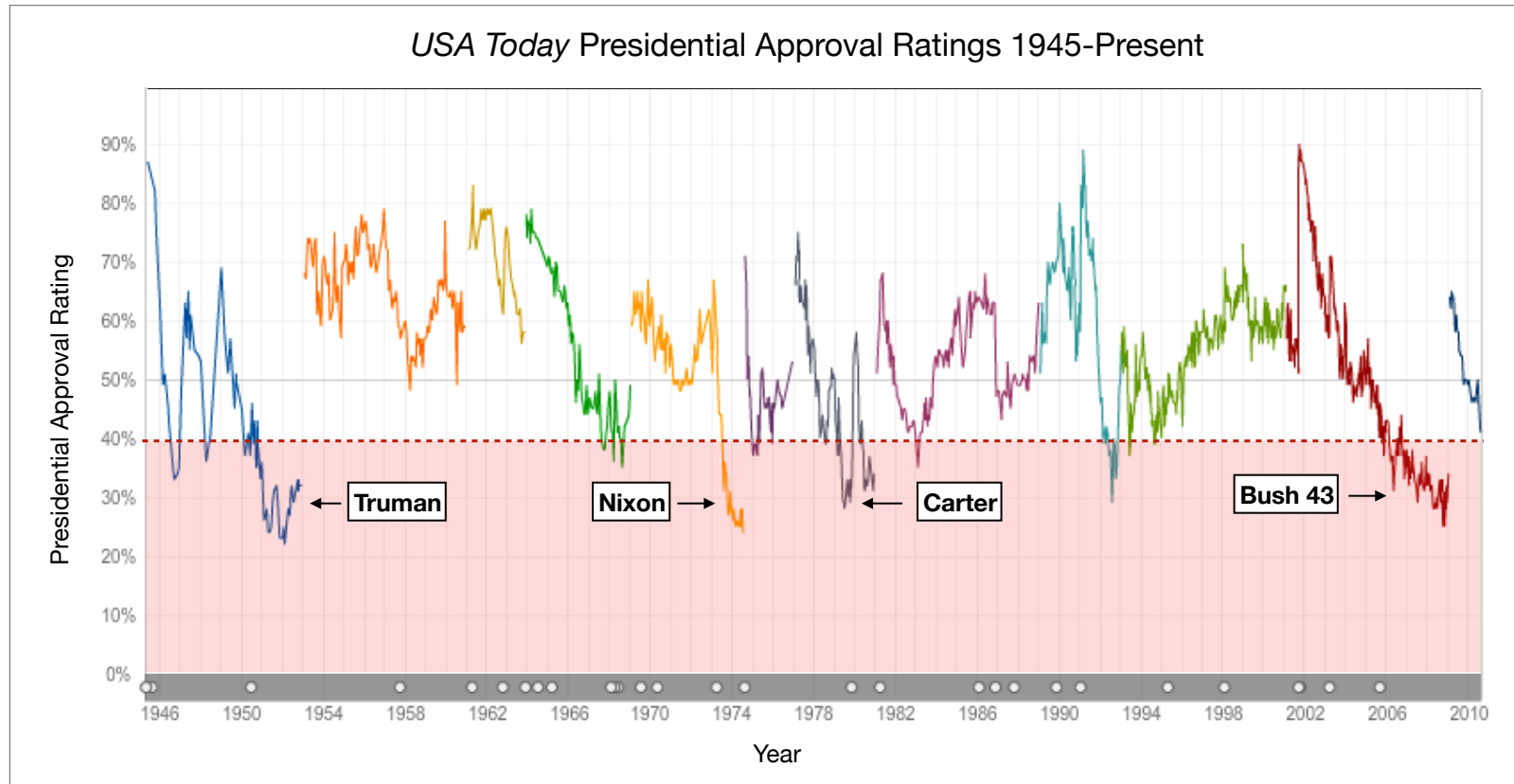
- At least 1,836 people dead, tens of thousands homeless, 1.2 million evacuees
- \$80 billion in property damage
- Historic New Orleans feared destroyed
- Looting, violence, chaos
- A major port shut down
- Retail gasoline price spikes and shortages not seen since Iran hostage crisis

A bookend to 9/11 and the opposite end of the trajectory --
Bush's second mid-term *Iran contra* moment



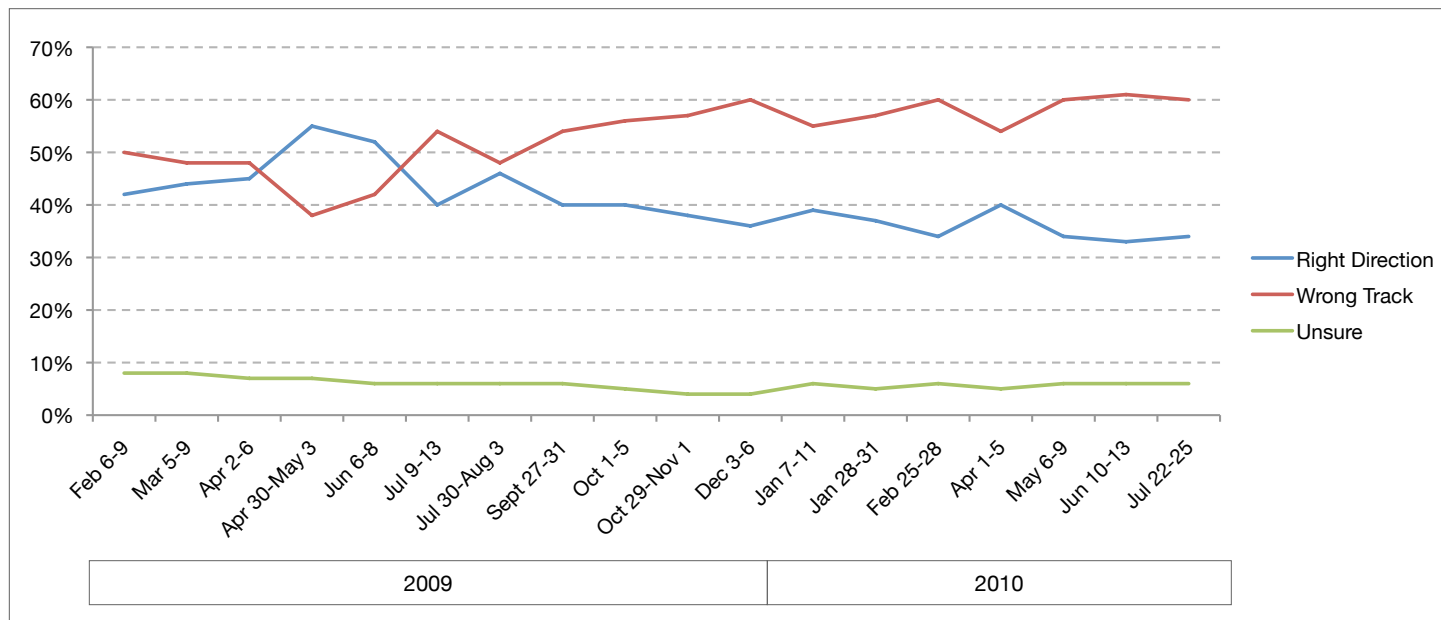
Source: USA Today

The Danger Zone Below 40%



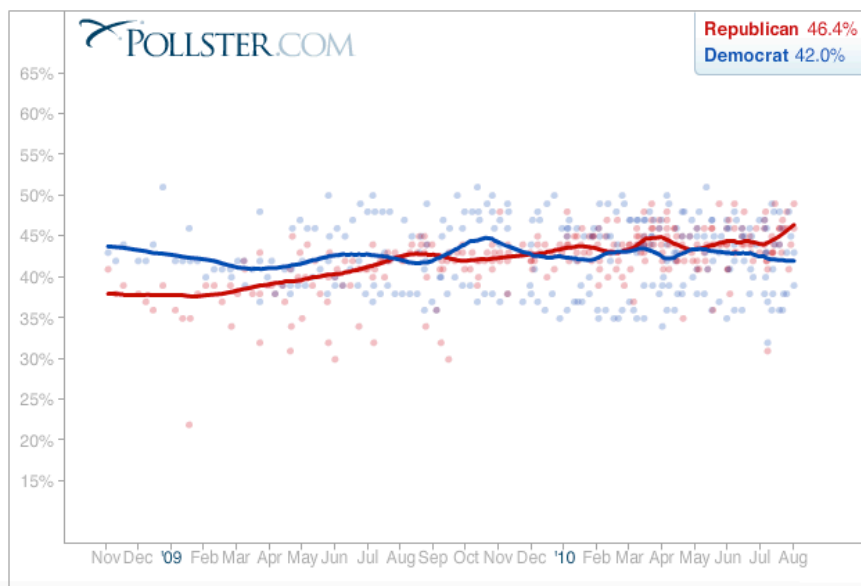
Source: USA Today

Generally speaking, would you say things in this country are heading in the right direction, or are they off on the wrong track?"

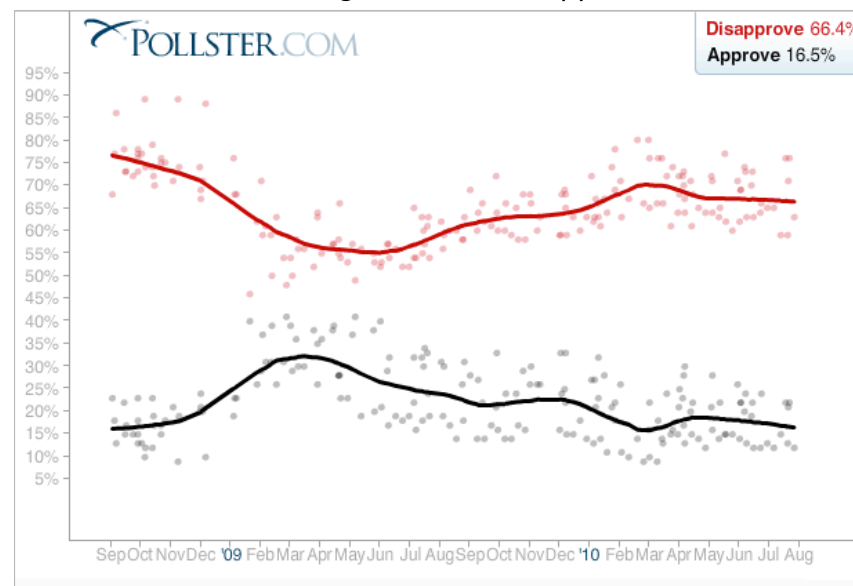


Source: Ipsos/Reuters Poll, July 22-25, 2010

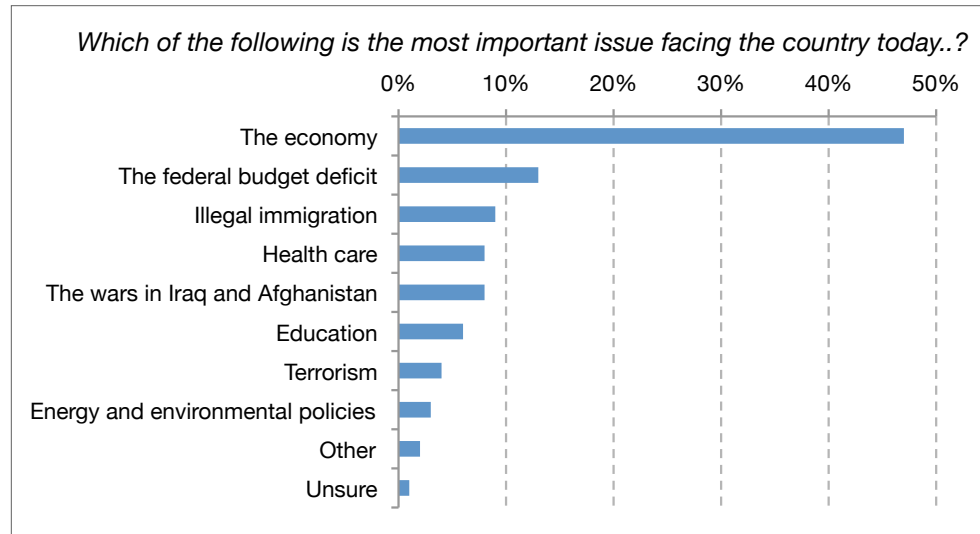
Generic Ballot



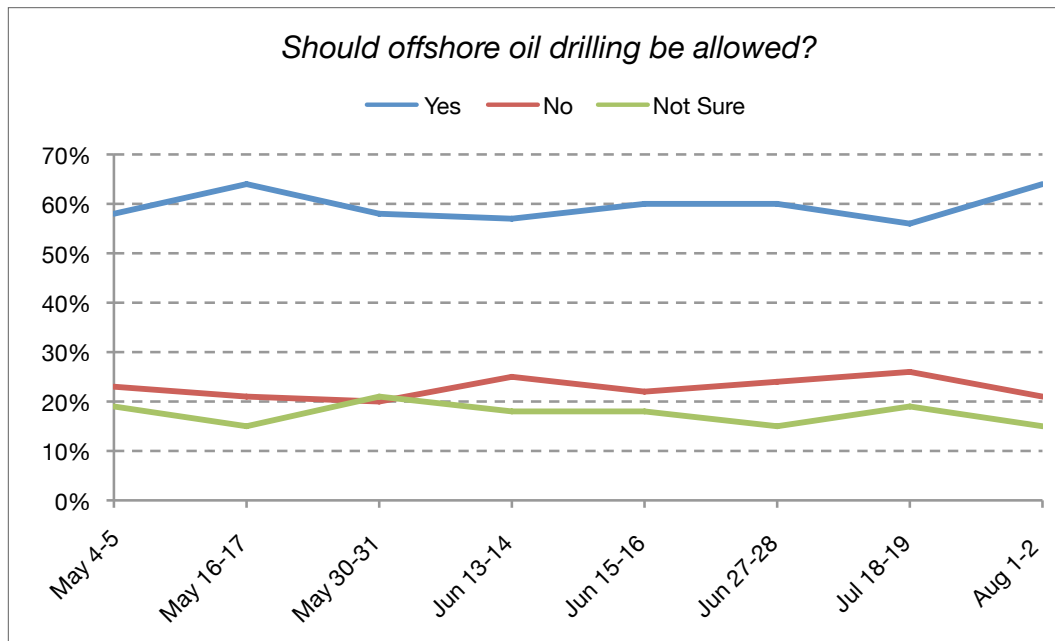
Congressional Job Approval



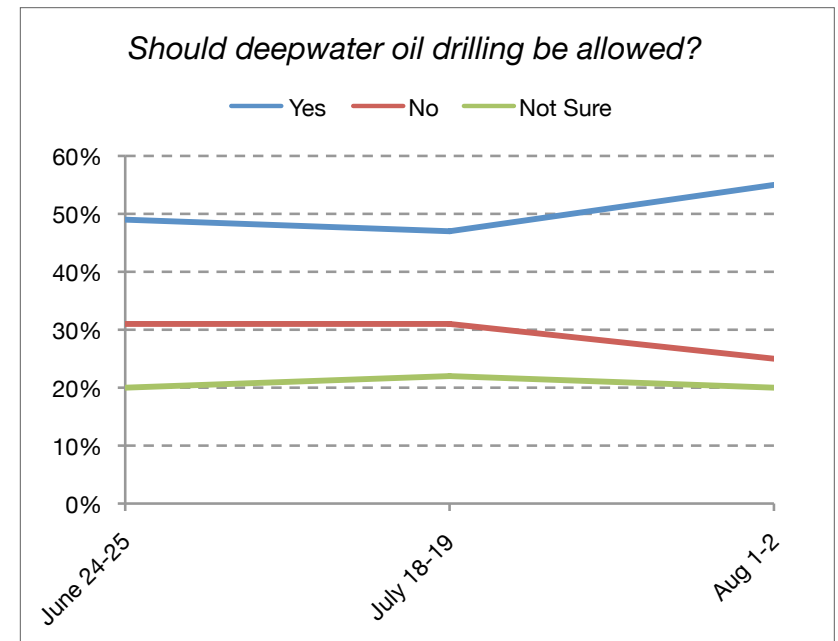
Energy/Environment Low on Priorities List; Drilling Still Popular



Source: CNN/Opinion Research Poll, July 16-21, 2010



Source: Rasmussen Reports



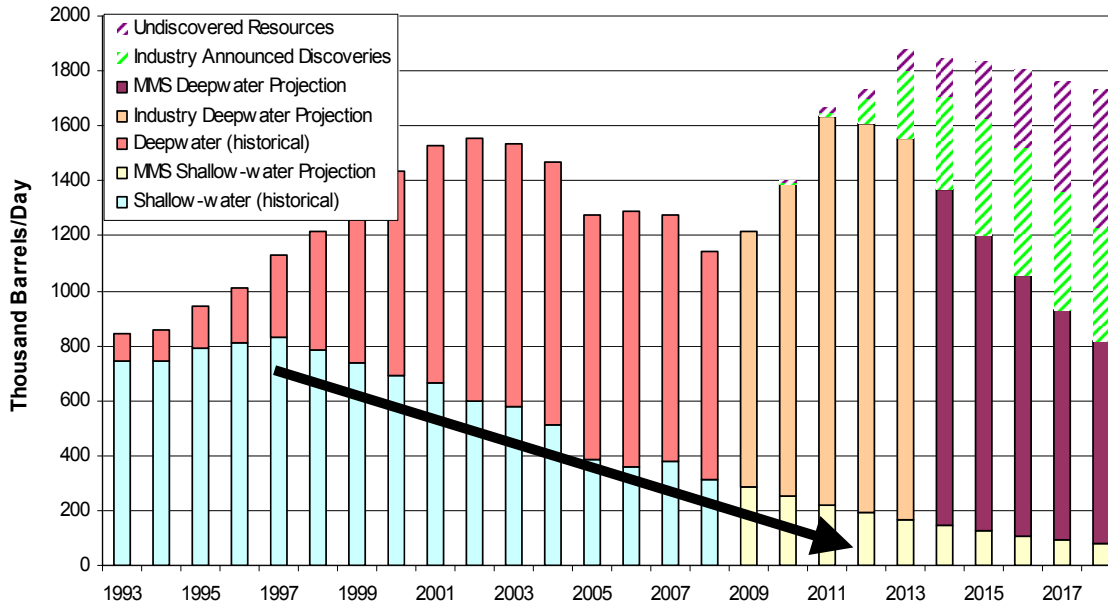
Source: Rasmussen Reports

- Both House and Senate remain in play
- Slight negative for Democrats: a few Gulf Coast seats affected, off-message, distracted
- Not particularly positive for Republicans
 - Bobby Jindal and David Vitter do well
 - Policy victories for Obama drive Republican turnout too
- FL Senate: Three-way race between Rubio, Christ, and a Democrat
- Overhang:
 - Obama on track to lose Senate seats in 2010, a big change from 2009 outlook
 - Dems on defensive in 2012, 2014
- Election outcome: neither side has effective control
 - Tense gridlock, budget focus
 - 2011 is about 2012 cycle

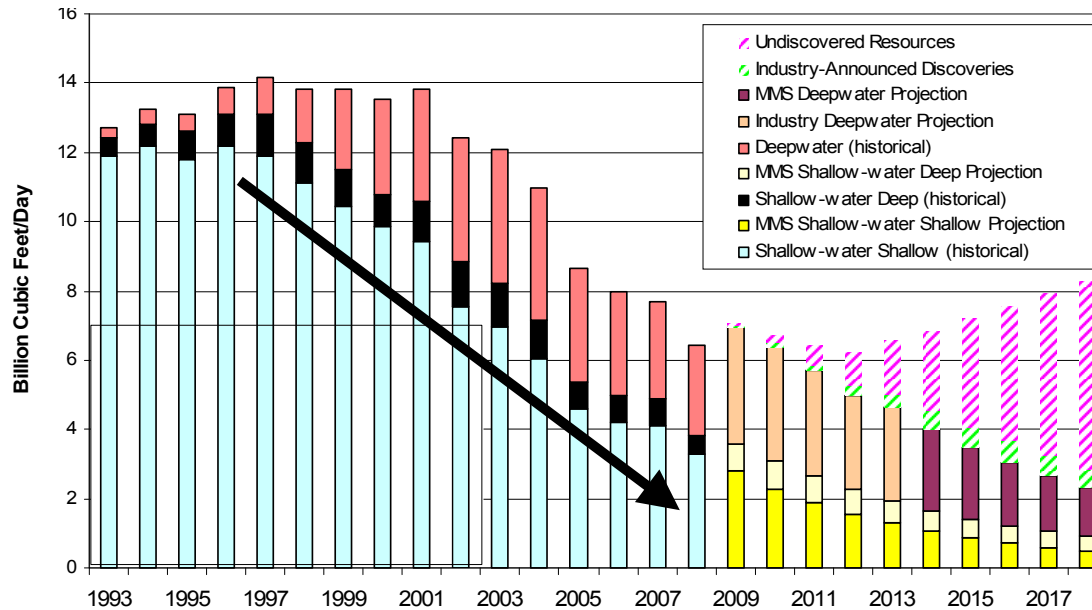
- Congress may pass nothing this year
- The Slow Mo-ratorium
- The Orphan Commission
- Institutional paralysis at Interior Dept.

The Future Is All About The Deepwater

Oil



Natural Gas



Source: OCS Report MMS 2009-012, Gulf of Mexico Oil and Gas Production Forecast 2009-2018, U.S. Department of the Interior

Deepwater Horizon Investigations

Title	Date Announced	Description	Leaders	Report Due
President's National Commission on the BP Deepwater Horizon Oil Spill	May 22, 2010 (by Executive Order)	Investigation into cause of Deepwater Horizon spill; will recommend regulations to prevent and mitigate future spills	Co-Chairs: Fmr. Sen. Bob Graham (D-Fl.), Fmr. EPA Administrator William Reilly	January 12, 2011
Coast Guard / Bureau of Ocean Energy Management, Enforcement, and Regulation Joint Investigation	April 27, 2010 (convening order)	Coast Guard Marine Board of Investigation into the "factors leading to the explosion, loss of life, sinking, and subsequent oil spill of the Deepwater Horizon"	Co-Chairs: Coast Guard Capt. Hung Nguyen David Dykes, BOEM	January 27, 2011
Bureau of Ocean Energy Management, Enforcement, and Regulation "Fact-Finding Forums"	August 4, 2010 (first meeting)	To "collect information and views about deepwater drilling safety reforms, well containment, and oil spill response..." for consideration in evaluating if changes need to be made to DOI deepwater moratorium	BOEM Director Michael Bromwich	<i>Unannounced</i>
House Energy and Commerce Committee	April 22, 2010 (first letter to BP, RIG)	Causes of the incident, adequacy of safety measures and practices, emergency response, and the role of the Interior Dept.	Full Committee Chair Rep. Henry Waxman (D-Calif.), Oversight & Investigation Subcommittee Chair Rep. Bart Stupak (D-Mich.)	<i>Unannounced</i>
National Academy of Engineering / National Research Council	July 16, 2010 (first meeting)	Requested by Interior Dept., Determine "probable" cause of explosion, BOP performance, technology failure; recommend technology, best practices, and standards to prevent future accidents	Fmr. Navy Secretary Donald Winter	<i>Unannounced</i>
U.S. Chemical Safety and Hazard Investigation Board	June 18, 2010	Requested by Reps. Henry Waxman (D-Mass.) and Bart Stupak (D-Mich.) June 8; Investigation into "root causes of the accidental chemical release" that resulted in Deepwater Horizon explosion and any similarities to 2005 Texas City refinery explosion	<i>Unannounced</i>	<i>Unannounced</i>
FBI / EPA / Coast Guard	July 28, 2010 (Washington Post story)	Criminal investigation into relationship of regulators with BP, Transocean, Halliburton -- e.g., any falsified statements, test results, bribes to MMS, etc.	<i>Unannounced</i>	<i>Unannounced</i>
Securities and Exchange Commission / Department of Justice	July 27, 2010 (BP 10-Q)	"Securities-related matters" from spill	<i>Unannounced</i>	<i>Unannounced</i>
Department of Justice	June 1, 2010	Civil and criminal investigation under the Clean Water Act, the Oil Pollution Act, the Migratory Bird Treaty Act, the Endangered Species Act, and other criminal statutes.	Head of DOJ Environment and Natural Resources Division, Ignacia Moreno Head of DOJ Civil Division, Tony West	<i>Unannounced</i>
Gulf States	July 27, 2010 (BP 10-Q)	Louisiana Attorney General has filed discovery petition, requested document production related to explosion and spill, others are expected to be conducting investigations and preparing suits	Gulf States Attorneys General	<i>Unannounced</i>
BP Internal Investigation	April 22, 2010	BP is conducting its own internal investigation into the causes of the explosion and spill	Personnel unannounced, investigation team based in Houston, TX	<i>Unannounced</i>

- Strong asset base, cash flows, and settlement structure
- Economic damages
- Fines, criminal penalties, natural resource damages
- Finger-pointing, negligence, criminal violations: BP vs. partners
- Litigation: class actions, environmental mass torts

The Deepwater Horizon oil spill narrative is still up for grabs.

Existing perceptions -- mostly negative -- of the President and Congress have hardened.

The President loses a chance to reset prior to 2010 election cycle.

The Gulf becomes a deepwater game for big companies only.

The spill was no Katrina, Santa Barbara, or Valdez. “Drill, baby, drill” may ride again some day.

Senate Election Projection: GOP Net +5 to 8

	Likely Democrat 60-80%	Leaning Democrat 51-60%	Leaning Republican 51-60%	Likely Republican 60-80%
Seats Now Held by Democrats	New York (Kirsten Gillibrand) Connecticut (Chris Dodd)* Oregon (Ron Wyden)	California (Barbara Boxer) Washington (Patty Murray) West Virginia (Carte Goodwin)* Wisconsin (Russ Feingold)	Colorado (Michael Bennet) Nevada (Harry Reid) Illinois (Roland Burris)* Pennsylvania (Arlen Specter)**	North Dakota (Byron Dorgan)* Delaware (Ted Kaufmann)* Arkansas (Blanche Lincoln) Indiana (Evan Bayh)*
Seats Now Held by Republicans			Missouri (Kit Bond)* Ohio (George Voinovich)* North Carolina (Richard Burr) Florida (Mel Martinez)*	Louisiana (David Vitter) New Hampshire (Judd Gregg)* Kentucky (Jim Bunning)*

* Retiring

** Defeated in primary

Source: Capital Alpha estimates



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