

63rd Annual Oil & Gas Conference
The Center for American and International Law
Alan R. Crain

My thanks to the leaders of this outstanding organization, along with the sponsors of this lunch, and most particularly all of you as participants, for inviting me, to speak today. But you can see they gave me a nameplate up here on the podium with my name on both sides just in case I forgot who I was (Laughter). So they're not all that impressed by me.

Sitting with Judge Morris today - well I don't *usually* get intimidated. I'll admit this to you. And Patty Napoleon who works with me, my assistant, if any of you ever want to meet with me, I can never tell you that's possible. Patty handles all that. You'd have to go with her. I don't know anything about that. So she's here today to give me moral support and even more than that, my psychiatrist, Dr. Guthrie's here. I'm not sure why you're laughing about that, but okay.

It is a great honor and a unique pleasure, but sitting with Judge Morris, I really am quite intimidated. So I decided I can't really give this speech. I have to admit, I can't really give it. (Laughter as Alan steps down from the podium and walks towards the exit.) That's all I can say (Alan mutters to himself and sits at a table near the exit). I'm looking for dessert. Anybody not eating dessert? (Alan stands and wanders throughout the audience for the remainder of his talk). So I'm not going to give a speech. We're going to give it together. I'm going to need everybody's help to do this because I'm not as smart; I don't have a career like Judge Morris', but I thought what we could do is talk a little bit about our industry. So maybe to level set, I'd like to get a sense of the commonality we have among us today - our common experiences? We're all oil and gas lawyers. So what have we done that we've all done? And then maybe we can talk around that.

So first, Jay [Martin] mentioned the companies I worked for, first with El Paso, the El Paso LNG subsidiary. Where's Bill Buck of Exxon? Where's Bill? Yes, he's got a lot of LNG experience. So everybody who's worked in LNG, whose spent a significant portion during their career raise your hand - LNG related work? Alright, so

we've got quite a few people, but not so many that I can't make up stuff. (Laughter) How about E&P? A lot of my work has been on E&P - my work on the board of directors of Mariner Energy and my years with Pennzoil. Alright, there we go. There's a lot. And what about on the service company side? How many people worked for service companies? Alright, well, it looks like that covers everybody.

So I think we can - WAIT! There's one other thing that I spent quite a bit of time on and maybe many of you have. How many people have worked on something for half a decade, something that they really had no interest in wanting to do, something they wanted to stay away from their entire career, and then at the end of it, they had the opportunity, because - none of the other senior officers volunteered when I asked them - to stand up in federal court --- and I hope the judge won't take me away immediately being a former federal judge --- and plead guilty to three federal crimes. (Laughter) How many of us? (Laughter) Yeah, so I guess the rest of you haven't had a parole officer either. (Laughter) That's not too funny actually. We'll have to come back to that because that one doesn't seem to be common ground. Maybe we'll get back to that later.

So let's talk about LNG. We had quite a few people raise their hands and I'd like to discuss LNG and do so in the context of energy policy in our country. So let me go back when I was in law school, one of the things I did to make money, I was advisor in the dorms. My first year in law school, I was on a floor with 40 girls and 20 guys. The next year I asked to be on a floor with just guys because I didn't do as well in law school the first year I should have. I don't think they're correlatable but don't tell my wife (Laughter).

But I remember on November 7th, 1973, in the common room on that floor surrounded by pretty coeds watching someone on television talking about National Energy Policy. I told you this is a collective thing. I need some help. Who might have been on the TV in 1973 talking about collective energy policy? (Response from David Winn) Jimmy Carter!!! No not yet. (Laughter) Nixon. I also heard Romney in there and Romney's a candidate for the presidency (Laughter) in the past. He's a

current candidate. He may always be a candidate but, Richard Nixon is the right answer.

So on November 7th, 1973, Richard Nixon goes on national television to announce Project Independence, and he says in his own style that (Alan mimics Nixon's voice) "by the end of this decade, employing the spirit of the Apollo Program, using the determination of the Manhattan Project, we will be independent of all foreign energy sources". Nixon meant the end of that decade, the 70s, and he was saying that - he made that commitment. We all know how well that went. But why was Nixon interested in November, 1973, about energy independence? I'm over here for a reason, Pat. Why was he interested?

PAT MURPHY: The oil crisis.

ALAN: The oil crisis brought on by the Yom Kippur War, which started on October 6th. Oil, in 1973, and I'm talking West Texas, oil prices for a 42 gallon barrel, what do you think it was selling for in 1973, at the beginning of the year? How much do you pay for a gallon now? HINT!. (Laughter) About \$3.50, about \$3.50 you could buy a barrel of oil, 42 gallons. When the oil crisis took place, the oil price in terms of OPEC wasn't that happy with us supporting the Israelis and the Yom Kippur War, the prices went up over \$12, nominal terms, in 2011 prices, that's about \$60. Nixon said, We've got to not have foreign energy. We can't rely on it. By the end of the decade, we won't be relying on it.

So, next, 14 months later, somebody else is president. Not yet. (Audience response) Ford! Right. Not the car; the guy. Ford's President, and Ford comes and he says, "I have a plan. A plan," these are his words, "that will make us invulnerable." I still want to look up invulnerable. I haven't heard it used much. "Invulnerable to foreign energy sources," and if you read it, it says, quote and this is the important part, close quote, "it will take sacrifices, but it will work." His plan? Same thing Nixon had only it's going to take five years more. By 1985, we won't be subject to using foreign energy. That didn't turn out so well either.

When I graduated from law school, I worked in Washington as Jay said, and then on September 1st, 1986, I came to Houston for the soul purpose of defying Presidents Nixon and Ford. (Laughter) I came to work at the El Paso LNG Company in order to help us bring that scarce resource in the United States, natural gas, that scarce resource. We all know how scarce natural gas is in reality in the United States. But it was in those days because it was what? (Audience) Regulated! Yes, it was cheap. It was cheap because it was regulated. We had 22, depending on time and frame you're looking at, 22 categories of natural gas, and the government said, what you could sell and for how much you could charge but of course it's all the same thing, right. Those molecules are the same, they bring you the same amount of energy, but the federal government had said, "This gas can be charged this much, this much, this much, this much" which dis-incentivized the industry from producing natural gas. So we had a shortage.

I came to Houston, the El Paso Company had signed a contract in the late 60's with the Algerians, sent it to the FPC, the good ol' FPC, and it was approved in 1973 and when I arrived in Houston, we were talking to Algeria about a second project. We were talking Colombia about LNG projects. We were talking to the Iranians about LNG projects. You remember the Shah was still in power in those days. And we were also talking about bringing LNG down from Alaska to California. So I think one of the themes of my talk is the more things change the more they stay the same, in the sense that that gas is still waiting for somebody to bring a lot of it from Alaska down to the rest of the lower 48. (Alan wanders back to the podium) I came up here to look for water, not to get you all off the hook. You all have to participate.

The efforts with El Paso and with other companies, well, actually I want to talk a little bit about, because I still want you all to participate. (Alan is back wandering among the audience) I didn't even get my water. I'll go back and get it. Why do we have LNG? Who came up with the idea of LNG and where did they come up with it from? Bill, I threatened to call on you if you want to volunteer here? (Response) Stranded gas. Well, actually it was earlier than that. You're right and we'll come back to that because those are big volumes. During World War II --- I keep looking for

desserts, but you've all eaten them. (Laughter) In World War II, we were around the clock trying to fight the Nazis, and trying to fight the evil government that was in Japan during the war, and we have industry going 24 hours a day. In Cleveland, they didn't have enough natural gas, remember, that the natural gas markets were not well integrated in the United States. Of course, globally they're not well integrated still. You know, you still have Europe as one market, which is indigenous gas, as well as imported gas from Russia, the former Soviet Union, and LNG that comes in from Algeria and other countries. In Asia, you have a lot of LNG coming into the big economies because they don't have a lot of gas. In the United States, we have it going wherever and from wherever, and I'll come back to that.

But in World War II, gas was needed to fuel plants around the time so a process was used. It was invented by -- my son's at MIT -- invented by a guy who went to MIT, Thomas Cabot. We know Cabot Oil and Gas. He had invented the process that was used and a big tank --- actually I think it was one big tank, it might have been more than one, but I think it was one --- in Cleveland in 1944 they have LNG. It's elsewhere in the country as well. But the one in Cleveland's is well known for a particular reason. John, I see you nodding your head and I think you know why.

JOHN: (Inaudible).

ALAN: Really? You haven't been to Cleveland? Is there something else about Cleveland you were thinking about? John has a different memory about Cleveland. (Laughter) Colin, you want to talk to him later. It seems to be troubling him. My psychiatrist is available, although he's pretty much full time with me. (Laughter)

In Cleveland in 1944, the tank was built had to be built, if you're going to store something that's at -263 degrees Fahrenheit. In fact, we don't have any pitchers of water, but if we had pitchers of water on every table here, and they were LNG, we'd all be scared. But if we had pitchers of water with LNG in them and they were to warm up, they would overflow this room with natural gas because it increases

volumetrically by a factor of 630. So that's why you want to take the natural gas, put it into liquid form because it's an easy way to store it, and then when warmed use the gas. So in 1944 in Cleveland, what happened was the tank it was stored in, the steel, it wasn't the appropriate steel. It turned brittle when it came into contact with the LNG and it cracked and when it cracked the LNG flowed out and flowed into the sewer system, gasified and caught fire, and 129 people died in a terrible tragedy. That's the end. Oh! NO? Okay. (Laughter) I'll try and be better than ending there. That's not too good. I still want to get that water. (Wanders to the podium) I don't think I got it.

So LNG had been developed in the war, shown it could work. After the war, we all know how poor Great Britain was. I'm never going to get this water because I like this story too much. And I remember being a kid and hearing about the London fog. Joe, you remember the London fog, right, and there'd be all these stories about the London fog. The thing that a lot of people didn't realize, I didn't realize till I got into the LNG side of the business, was the London fog was really from coal smog together with the rain. In the 50's, people were dying from respiratory problems. And the people that ran the governments there said, "We got to find a better way and we need gas." We don't have gas in the UK. The North Sea wasn't developed yet. And the first LNG that went into the UK, Canary Island, came from Algeria in 1964, two years after the Algerians finished their terrible war with France for their independence, and that started the ocean LNG trade on a significant scale.

So when El Paso looked at doing this, we already have proven technologies. They were using the right kind of steel, a nickel steel alloy and later we used aluminum at El Paso to build to build a tanker hold it -- it looked like rooms like this, only they're much, much, bigger. The original tankers, when you went into the major trade, were 125,000 cubic meters and they were in vessels basically the same size as aircraft carriers, and then you had large thermos bottle that held them just like this. As the LNG boils off and turns to gas, you used it to fuel the ship on its journey to take the LNG to a receiving terminal in another country.

So Nixon's prediction, Ford's prediction, they didn't work out too well. That didn't happen in either case. And by 1977, I'd been working at El Paso for about a year and Jimmy Carter --- sorry, David, I meant to give you that one so you could go with it. (David responds) (Laughter) Anybody know who was president in 1977? David? (Laughter)

DAVID: Carter.

ALAN: I'm sorry. David and I have been good friends for many years. We do, well, in past, we've done lots of programs together. (Laughter) I'm pretty sure this is the last. (Laughter) Jimmy Carter declared the moral equivalent of war on April 18th, 1977, so he's two years, remember, about two years after Ford said that by 1985 we'll be through, and he sets a strong goal. We'll cut imports by half by 1985. So he changes the goal; uses the same time frame. And, of course, that didn't happen either. That's the speech which many people call the malaise speech. He never uses the word malaise. People say, "Oh, he was in his cardigan in the White House telling us to turn down our thermostat." He didn't wear a cardigan jacket. He had on a blue suit. But it was true by that time he had put in solar panels at the White House; he did have the wood-burning fireplace, and did have a different view on how things would go. Somehow when Reagan became president, they decided to do some renovations at the White House and the solar panels went. What a surprise.

But by then we'd have another president, the third president in line. I'm not going to go through all the presidents who predicted it because obviously, you know, George Herbert Walker Bush had a program to reduce energy imports. George W. Bush had one and our current president has made a number of statements including in the State of the Union Address about the situation regarding energy and what we should do.

But I raised the point about LNG and use it as an example because all the time we spend on exploration and production on that part, and all the services that we do, we provide at the service companies are, to find, develop, and produce, and

provide energy to our nation. And we know if we don't have clean air, which is very important to all of us, you know, we're going to be dead in a few minutes. If we don't have clean water, we'd be lucky to survive a couple of days, and obviously if we don't have food, we're not going to make it very long either, a few days, a week, I don't know how long that would last. And historically all the energy that fed that cycle for food came from the sun, the photons of the sun brought it. So there is that energy source we're used to, but the industrial revolution, the modern age we have today, modern civilization, we need abundant energy sources, available, abundant, and useable energy sources that don't make it impossible to have the clean air that we have to breathe every minute, and to have the clean water we need to survive. And that's what we are focused on. And right now there's a big debate among the various parties in our national debate over energy. About whether or not the things we're doing are appropriate things to do, and it seems to be very hard for our political debate, people are very contentious one against the other.

At Baker & Hughes we bought BJ Services, which is a hydraulic fracturing company---well a pressure pumping company, including hydraulic fracturing, stimulation, and other services, well services. We bought that company seeing the benefits of hydraulic fracturing, which has been done for many, many years, and yet in this, in this land right now, there's a debate that's not around science. It's around emotion. And it's unfortunate and I think we all play a special role because as lawyers, we have a special duty. We all know we have a special duty.

Some of you may have, as I have, had to explain that duty at times, not to people at Baker & Hughes or any of those entities I mentioned before. Actually the hardest explanations I had to give about being a lawyer and what my duties were, my friend, Martin over here, knows about this well. Well, when I was in Philadelphia outside of the industry working in another industry, I worked for a company where I was executive vice president and general counsel for a very short period, until I was offered the opportunity to come back to Houston, get back to Houston, and be in the energy business, because the energy business is so great, every day on the

newspaper in the headlines different things. That's why we see three or four stories that implicate what we do that's so important.

Now in Philadelphia, it was perfect fit in many ways because as a technology company, we were the world's largest rigid packaging manufacturer. (Laughter) This is collective. You all have to help. (Laughter) So if people at your table don't know exactly what that is, I know you'll all explain it and I appreciate that. No, David, it's not that. No, no. Rigid packaging as it's used in that sense meant that we made and that company continues to make billions and billions of beer cans (Laughter), pharmaceutical cans, food cans, cosmetics, too, but a lot of beer cans. You'd be amazed. I hope this weekend you'll study the technology around a beer can. IP was one---it's not that funny--- I don't know why you keep laughing at the parts that aren't funny and silly. But it's true, beer cans are a very interesting IP area.

But being here, being back, it's great to be in Houston and has been for the last 11 years, lots of challenges. And I made a joke at the start about, you know, standing up in federal court. That was one of my proudest days as a lawyer. So speaking about our duties as lawyers and to communicate our duties to our clients, that was one of my proudest days because I was the representative, I was treated as the juridical entity, a foreign subsidiary. I pled guilty as though I was the company. I was proud because standing there in Judge Gray Miller's court and Judge Miller had just gone on the bench and he was really marvelous. The protections built into our system for an individual who's in there pleading guilty, they must have asked me seven different ways because they're treating me as if I am the company, I am the bad person who did these bad things, and they ask you seven different ways. "Do you understand what you're doing here?" But it's very well stated and very appropriate, and you realize how proud we have to be to be lawyers in this system that protects the individual. And we work all the time with certain givens.

We work with the assumption of Rule of Law and as we work in foreign countries, that can be very challenging. . I mean, we want to have the Rule of Law prevail. The corporate social responsibility lecture earlier spoke about the Rule of Law. When we talk about the Foreign Corrupt Practices Act, when Martin [Weinstein] was up

there and Luis [Derrota] was up there and Jeff was up there, one of the foundations, and one of the reasons Jay [Martin] and I have worked so hard, frankly, to work on compliance issues isn't just because that's our job or that's our duty. It's around the fact that fighting corruption around the world helps preserve the Rule of Law and without the Rule of Law, none of us have human rights. So we're engaged, you know, Martin's chart, if you went to that lecture, it showed that the oil and gas industry's been the target more than any other of the FCPA and I think there are a lot of improvements that could be made to the FCPA, but we are the forefront of doing the right thing. If we do the wrong thing, bad outcomes come from that and we're involved in the process of helping to get oil and gas, helping to get energy so people, so we can have industry, so we can have better jobs, so our children have a future, grandchildren have a future, and the whole world has a good future. But it's not an area without some tension and it's a big challenge for all of us.

When I left the LNG part---I want to go back to that---I thought I wanted to go back into private practice because I'd enjoyed the time in private practice in Washington very much and I had spoken to a number of big firms here, and I had actually narrowed it down and had a very good offer from one of the firms. And was literally about to take that offer, I thought about two days hence I was going to have to tell everybody, and I got a call, and I did resent a little of Jay saying that he and I have worked together since the beginning of his career (Laughter) because I left El Paso after being there for five years. So I'm talking about that time frame and I haven't met Jay yet in that scenario. (Laughter) So I get this call and this woman on the other end says, "Hold for Mr. Barber." Anybody know who Perry Barber was? Go on tell me.

MALE: Was a partner at Baker Botts.

ALAN: He was a partner at Baker Botts. I heard that. I'm still trying to figure out who the hell he was. Anybody else know who Perry Barber was? (Laughter) All

these years and I still can't find out. (Laughter) What did he do after Baker Botts? He was the general counsel at Pennzoil. So I got to hold the phone and wait for Mr. Barber. He comes on the phone and he just starts talking away. He says, "Hi, Alan, this is Perry Barber. Baine Kerr, our President, has heard about you from David Mackey" ---I don't know if any of you know David Mackey. He was at El Paso-- - "and you've got engineering degrees, you've got a law degree, you've got a graduate business degree. You need to come over and here and see me." And I'll never forget these words. He said, "You'll make a life mistake if you don't come see me." (Laughter) I wasn't sure what a life mistake might mean, but I sure didn't want to make it, whatever it was. And he said, "I'll have my secretary get in touch with you," and I said, "Well, yes, yes sir," and I hung up.

The phone rang immediately, it was his assistant, and she said, "You're expected here at 2:00." (Laughter) So you know when you talk to somebody on the phone---I'm very image oriented, I have to have a view. If I go to a hotel, I always say I need to be able to look out or it'll make me crazy. I'm very image oriented. So when I talk to anybody on the phone, when I have to call in a warranty, or I have to call a credit card company, or whatever, and you often speak to women. You know, and they sound so sophisticated. I can imagine them dressed in high culture clothes and they're beautiful and makeup's perfect. In my mind's eye at least. Now I know they probably really look like Roseanne Barr in terrycloth with their hair in curlers because they're working from home or something. And so when I went to see Mr. Barber, you know I had my image of him. When I'd spoken to him on the phone, I had this immediate image of this guy, you know, what with his gravelly voice, so I thought of Edward R. Murrow. I don't know how many of you are old enough to have seen Murrow but maybe you've seen the George Clooney movie. Edward R. Murrow looked a lot like that guy, but not so much, and so I had Edward R. Murrow in mind, you know, in a cloud of smoke.

So I went over to the Pennzoil Building, the dual Trapezoids downtown, go up on the first elevator, you go past security. The guys had machine guns. I was little

worried. But they kind of looked like it, didn't it, Jay? Actually some of them told me they owned machine guns. But anyway, you go past this other desk and then you go up this little elevator and you go up to the really high reaches of the parallelogram. And I walked down the hall, was led down the hall, and to go into Mr. Barber's office, I go into Mr. Barber's office with my image in my head and there is in fact Edward R. Murrow sitting at his desk in a cloud of smoke looking out over Houston. Perry was better looking than Edward R. Murrow, but it was the only time in my life where somebody totally matched up with exactly who I thought they looked like. And because I didn't want to make a life mistake, I took the job---not that day---I don't think he offered me a job. Took him awhile. It was probably the next day, knowing Perry Barber. And I went to work there and then did a lot of work on exploration and production, particularly internationally.

And the thing that's relevant to the predicate for this story, if anything is relevant to that, was one of those things I was in charge of was handling all the legal work for what was called the NordWinning Group. The NordWinning Group was a group that Pennzoil was the leader of and we had the K10 and K13 blocks in the Dutch sector of the North Sea producing primarily natural gas and I learned how the European market for natural gas worked, which was very different than here, and the very deep fear of the Soviet Union at that time by the western Europeans, and the very close guarding of the resource by the Dutch of their Groningen Field, which when it was discovered I think in the 50's, early 50's? Somebody here knows that. And I don't know it, so you can guess, and I'll just have to say "RIGHT thank you". Go ahead, David say a date, come on. (Laughter)

So the Groningen Field was the largest discovery of its time in natural gas and the Dutch were very careful at controlling the output of that and also very careful as to anything that was discovered in the Dutch sector of the North Sea. And the interesting part about that was you had the duty, when you discovered anything in the North Sea, to offer for sale a Shell friendly entity just like everything in the Dutch sector in those days. The Dutch nation was controlled by the government but closely

aligned with Shell. Joe worked at Shell early in his career. Those of you at Shell, there used to be a revolving door. People would work for the government, they'd work for Shell, they'd work for DSM, then come back to Shell, etc., etc. But Shell really seemed to control everything there and did it very well, did it very well.

But you had the duty to offer it to them and if you couldn't come to a reasonable price, then you were free to sell it. But nobody had ever done that. I do remember in some negotiations, they got very heated and I do tend to sometimes go outside of the box and so they weren't getting where we felt they needed to be price wise and the business guys said, "You know, you got to be able to do better than that." So I told the fellows, "Well, we're going to go talk to the Italians. We can sell this to the Italians and dadadada". I'm surprised I ever got to leave the Netherlands because while you and that technical right, it wasn't necessarily true, but it did help me see how the European market was pretty isolated back then in the 80s. U.S. market was pretty isolated. LNG was flowing, but it wasn't flowing in the same amount as today.

Today, the market's different and I think this is a very important dynamic. You know, with LNG, we were always looking to the future and those of us that have worked in trying to bring LNG to this country, we always saw it as inevitable. In fact, when I first went to Baker Hughes in around 2002, sitting with Mike Wylie, the Chairman, I remember Mike talking about gas prices are going up because we don't have enough here in the U.S., but LNG is going to be the cap on that and on prices. That's what's going to be the cap. LNG is going to flow in here and stop it. So, you know, we got to predict how much service request that'll be, and, of course, that's before the shale gas. So today we don't have a global market for gas. There's a partial global market outside of the United States, but it's not here because we have the shale gas, and the shale gas is a great thing.

So I come back to a point I made before. My personal feeling is if the government comes in and starts over-regulating, the production of natural gas or the export of natural gas it will be suboptimal. It took years for us to get them to give

up the damaging regulation of gas. A great book and video is *The Commanding Heights* and it is really something, especially the video, especially if you have missed the videos and the pictures that normally come with this lecture, which David told me I couldn't do because he said most people were sleeping through this and I was supposed to keep everybody awake. (Laughter) Oh! Only you were sleeping through it David?! ---- I'm sorry, David. David's a good friend. I'm sorry to pick on him this much. I know he'll get payback.

But I think if the government gets back in that position, I'd suggest to you, Dan Yergin's book, *The Commanding Heights*, and he did a PBS special, it's a six-hour special and I think you can still get it online. You can certainly get it from Netflix. But it shows you all the pain and suffering with Margaret Thatcher and Ronald Reagan and others to get us to the point where government wasn't controlling the commanding heights of the economy, and particularly around energy, and how once the market--and the market is in disrepute now, I think--but once the market, was free to work on that and the government let go a little, things got much better economically for everybody. You know, it's a very virtuous circle. So I do worry a great deal about that.

I worked at Pennzoil for six and a half years. In 1987, my wife, Malinda (and I'm sorry she couldn't be here today, although I didn't want somebody laughing through the entire presentation) (Laughter), said to me, "You know, Alan, you spend more time out of the country than you have in town". In 1987, for example I made 22 trips out of the country. I spent almost no time in the country. Still I had to pay taxes here. Mr. Liedtke, who ran Pennzoil, apparently said I was not allowed to live overseas. I wanted to move overseas. I said, "This would be a lot more efficient if I lived in the Netherlands since I'm kind of commuting there. I'm also going to Egypt, I'm going to Morocco, I'm going to Tunisia, and going to all these other countries." But he said, "No, I want Alan here." I'm not sure why. He did laugh at my jokes, and maybe that's why. Everybody else was too scared of Mr. Liedtke to joke with him.

Anyway, my wife said, "You know, this is not good, we don't have children, you're getting old, you're not here." So in 1988, I did take a job with Union Texas Petroleum and I went there in good part because I was going to be a Deputy General Counsel. I was going to be over securities. I wanted to learn securities. Well, that was one of my requests at the time, and to spend more time at home, frankly.

Another history question and I'm sure somebody will know the answer. So on July 6th, 1988, what happened? (Whispers to David) (David responds out loud). Piper Alpha! David, very good. (Laughter) What was Piper Alpha? (David responds) Explosion in the North Sea. And I didn't give him the help on that one. One hundred and sixty-seven men died, 165 men from the platform of Piper Alpha, two men that were heroes saving other people until they got killed in a fast rescue craft, 167 men died. We all know the Macondo Disaster and how terrible that was. Each death was a terrible thing. Eleven people dying in Macondo. Of course, just because there were more people in Piper Alpha doesn't make it worse. They're equally bad. But it was something that required me not to stay in Houston, but to go to the UK the same way traveling back and forth and be very much involved in that. Union Texas owned 20% of Piper Alpha. We were the only company that had business interruption insurance. There were a lot of insurance issues to work out there and I did negotiate and collect \$225 million in business interruption alone. That's why if you can't buy business interruption anymore, you know why. (Laughter) It pretty much changed after that.

When I'd been at El Paso, I'd actually worked on the prior largest marine insurance settlement in history, which was the three LNG tankers we had being built at Avondale Shipyards. They had aluminum tanks, which were much more expensive, but to make the whole thing economical, the group that had designed that, the Conch Group, which was a collective group of oil companies actually, who I won't name here to protect my clients who might get angry, the customers of Baker Hughes. They had come up with a polyurethane foam, which if you imagine this room as one of them, this would be very small, but of one of the cargo holds. You spray the foam on the

steel outside that and then you put the aluminum tank in. That failed on cold trials and anyway that ended up being the largest marine insurance claim prior to Piper Alpha. And we resolved Piper Alpha, and I give a great deal of credit, and he deserves it, to a former partner at Vinson Elkins, a fellow named Gene Silva. We call him Gene Silva, the Elder, because his first son is Gene Silva, Jr., who's now with Exxon in their arbitration group. But Gene came up with something called the MidAtlantic Formula. When we looked at how much people might recover in courts here and how much would they get in Scotland. And in Scotland, actually, you can go to three different lawyers and they could tell you almost exactly how much somebody would get based on their age, their earning ability, who they were supporting, etc. So it was pretty definitive. We know how definitive it is here! Anyway, Gene worked out a concept and put it to the whole group on how we'd make offers and we made offers and settled almost all the cases on the condition that they would refuse to even litigate here. So that worked out well.

Notwithstanding the travel, Philip, who Jay was kind enough to mention, was actually born in 1989. So you don't have to be home all the time to have a family. (Laughter) Just once in awhile is enough. But the reason I bring up that particular experience at Piper Alpha and relate it to Macondo and other things, is our business is dangerous. It is dangerous and I saw it again and again and again. I've seen it throughout my career, the constant diligence by everybody every day on safety it has to be true. It has to be the culture and everybody had to do it and people can't cut corners on that where things go wrong, because it only takes one person to end up with a disaster. And as we know, it impacts all of us, all of our clients, all of our stockholders. So, it's something we can't stress too much and I tell you we stress a lot at Baker Hughes. Since we bought BJ, we own the seventh largest trucking fleet in the United States, seventh largest trucking fleet. Coca Cola Enterprises owns the first, have more trucks. It's stymieing all the times we have people on the road with big rigs and we work and work and work at safety every day. So I encourage all of you personally to work at it and within your organizations to work at that.

So I want to end a couple of minutes, but not before turning to mentioning we bought BJ and it put us in the middle of the debate over hydraulic fracturing and the development of resources here in the United States, which we need to keep doing. Shale gas has come to us somewhat surprising it is shale, and now shale oil is flowing as well as shale gas. It has all come about through the application of technology, the kind of technology that Baker Hughes and our good competitors have developed. Horizontal drilling coupled with the fracturing has brought this. We've got another opportunity in this country, not probably totally energy independence, but to be much less dependent, and this is important for national security, it's important for the future of our country, for the economic future, and it's something we can't screw up. We need to get it right.

(Returning to the podium) And being a native Washingtonian, (by the way, almost nobody in my family ever worked for the government, so I'm not responsible. I had one aunt who worked at the Navy Department and everybody was in the military during the War, but then mostly educators and doctors), you know, down here in Texas, Washington has a bad image. Growing up I knew lots of people who were very kind and very dedicated civil servants who worked for civil servants' wages trying to make the country better. So what we have is a big duty, it is being part of this industry that's such a wonderful industry, such a vital industry, such a critical industry to make sure we get the message across about the good things we're doing and not allow, well, try and prevent bad actors from doing bad things, try and prevent people from screwing up. Now with regard to the Washington bureaucrats, remember my image of Perry Barber and how it was right, but how such images are usually not correct.

So please close your eyes (Alan closes his eyes) and think for a second about what's your image of the bureaucrat in Washington. What do you think the bureaucrat in Washington looks like? And then put yourself in their shoes. This is what I've done most of my career is I had to go negotiate in various countries to get deals done and the same deal in the Netherlands was very different, even though it was the

same deal economically to doing it in Egypt. You had to put yourself in the other person's shoes to come to success because they're so different. John Maul is nodding his head having spent a lot of time in many countries doing the same deal with different people. So think about being in the shoes of a bureaucrat who looks down here at Texas and says, "You know, who are those people that I'm dealing with? Who are those people I'm trying to regulate?" And I can tell you spending, going up in Washington and spending time in the northeast in school; they have a particular image of us. So who do you think they think we look like? I'm going to leave and just you all think about that. (Alan leans over, disappearing behind the podium, and when he straightens back up he is wearing a black ten gallon hat and has a gigantic cigar in his mouth. (Laughter)

I'm the biggest anti-smoker there is. I had to go to a place on Shepherd at Richmond yesterday, it's called the Cigar Emporium, and I called them (I'm highly allergic actually to tobacco smoke but I called them), and I called them and said, "Are you open?" He said, "Yes, we're open till 8:00. We have an event." And I thought, "Well, that's good, okay." I didn't really think about the whole statement he made. (Laughter) So I got there about 7:30 and went in and Perry Barber could not have taken the smoke in that place. And, of course, I'm in there to find the biggest, meanest looking cigar I could find, and everybody's smoking cigars, including a lot of women, which is just the most bizarre thing. And I couldn't go in there as I normally do when they have smoke, so I'm going into the smoke (growls), inhaling the smoke (growls). I had to go in there and be nice to all these people blowing smoke in my face and it was a wonderfully humbling experience. Not as much as it is to be here with Judge Morris (Laughter). So we have an image problem. It's an image problem that probably goes back to Ida Tarbell commenting in the media on John D. Rockefeller. It happens all the time. People see us in a certain way, unfairly. And I think we might unfairly see other people in the same way. So we need to work to be more transparent. We need to work to communicate our position. We need to educate people. Jay mentioned government relations, one of the areas that reports to me, and

we work hard to educate those who have power to be sure they understand what's best for the country and we need to be honest among ourselves about promoting that switch to more gas, which is honest for the country. Anyway, unless David has some more he wants to go into, that's all I had, and I thank you very much. (Applause)

(End of speech)