

## Governing Energy

### Energy Inflection Point

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It is always a challenge for those within a process to develop a sense of exogenous forces that may deflect the tended path. Extolled to “think outside the box,” this cliché promises new thinking and the ability to step outside our process.

But can we? Usually not! This partly because a robust methodology to ‘separate’ ourselves is not employed or even available.

Since the mid 1990s the author has addressed this issue, releasing the Beta version of a methodology, *Structural Dynamics* in 2012 (available [online](#)).<sup>i</sup> *Structural Dynamics* focuses on the underlying dynamic behaviors of all systems, physical and/or human behavior. In February 2015, the latest version was published in our Changing the Dialogue series.<sup>ii</sup>

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*“The fundamental premise upon which the theory of Structural Dynamics is developed is the belief that structures are not static and that more often than not, these dynamics are not directly observable.”*

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The so-called Conventional Wisdom is being called to task around the globe. This has happened repeatedly and pundits put forth a number of reasons why. We are too busy, focused on this business quarter, too young, too old or have family obligations etc. that hold us back from opportunities that are outside our box.<sup>iii</sup> While this may be the case for many, *Structural Dynamics* suggests that we cannot typically “see” opportunities or changes in our process dynamic.

2015 will no doubt go into the history books as one of turmoil in the global crude oil market, especially in the United States. Many pundits are predicting a more stable 2016 with crude oil pricing remaining “low” possibly until 2020—four more years.<sup>iv</sup> What if the price does not recover as many predict but stays in the current trading range indefinitely?

In 1950 a gallon of gasoline was \$0.18 and a new house cost \$8,450.<sup>v</sup> Consumers in that era could purchase almost 47,000 gallons of gas for the price of a house. The average price of a home in October 2015 was \$366,000.<sup>vi</sup> On December 1, 2015 the average cost of a gallon of gasoline was \$2.04.<sup>vii</sup> Today’s consumer can purchase over 179,000 gallons for the price of a house.

While not a scientific analysis, this rudimentary financial model suggests today's consumer is living in an era with a great deal of *energy purchasing power*. Perhaps, we have passed an energy cost inflection point?

The very success of the industry, i.e., shale, technology, etc. appears to have "bent the energy cost curve down." Furthermore, it is likely that the sector will continue to drive down its cost structure.<sup>viii</sup>

Oil market busts have happened before, so why were so many firms caught flat footed?<sup>ix</sup> In the 2015 edition of *Structural Dynamics*, sixteen questions are put forth to help management develop a set of data from observed events. An approach is also put forth to link these observations with the unseen or latent variables that can represent sector shifts.

Admittedly a bit technical but this is a useful tool to help prevent the destruction of shareholder value. The owners deserve at least this much from their management team.

## **How do you know if the organizational/sector ground is shifting beneath your feet?**

### **About the Author**

Dr. [Scott M. Shemwell](#) has over 30 years technical and executive management experience primarily in the energy sector. He is the author of five books and has written extensively about the field of operations management. Shemwell is the Managing Director of The Rapid Response Institute, a firm that focuses on providing its customers with solutions enabling operations excellence and regulatory compliance management. He has studied cultural interactions for more than 30 years--his dissertation; *Cross Cultural Negotiations Between Japanese and American Businessmen: A Systems Analysis (Exploratory Study)* is an early peer reviewed manuscript addressing the systemic structure of social relationships.

### **End Notes**

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<sup>i</sup> [http://www.therrinstitute.com/assets/structural\\_dynamics\\_-\\_version.pdf](http://www.therrinstitute.com/assets/structural_dynamics_-_version.pdf)

<sup>ii</sup> [http://www.amazon.com/Structural-Dynamics-Foundation-Generation-Management-ebook/dp/B00U0JKMT0/ref=sr\\_1\\_1?s=books&ie=UTF8&qid=1448970196&sr=1-1&keywords=structural+dynamics+shemwell](http://www.amazon.com/Structural-Dynamics-Foundation-Generation-Management-ebook/dp/B00U0JKMT0/ref=sr_1_1?s=books&ie=UTF8&qid=1448970196&sr=1-1&keywords=structural+dynamics+shemwell)

<sup>iii</sup> <http://www.danpena.com/articles/conventional-wisdom/>

<sup>iv</sup> <http://www.marketwatch.com/story/oil-prices-will-rebound-much-faster-than-market-is-predicting-barclays-says-2015-10-15>

<sup>v</sup> <http://www.thepeoplehistory.com/1950s.html>

<sup>vi</sup> <https://www.census.gov/construction/nrs/pdf/uspricemon.pdf>

<sup>vii</sup> <http://www.fuelgaugereport.com/>

<sup>viii</sup> <http://www.offshore-mag.com/articles/2015/12/technology-innovation-key-to-cost-reduction-capital-efficiency-says-analyst.html>

<sup>ix</sup> <http://blogs.wsj.com/moneybeat/2015/11/19/oil-producer-bankruptcies-piling-up/>