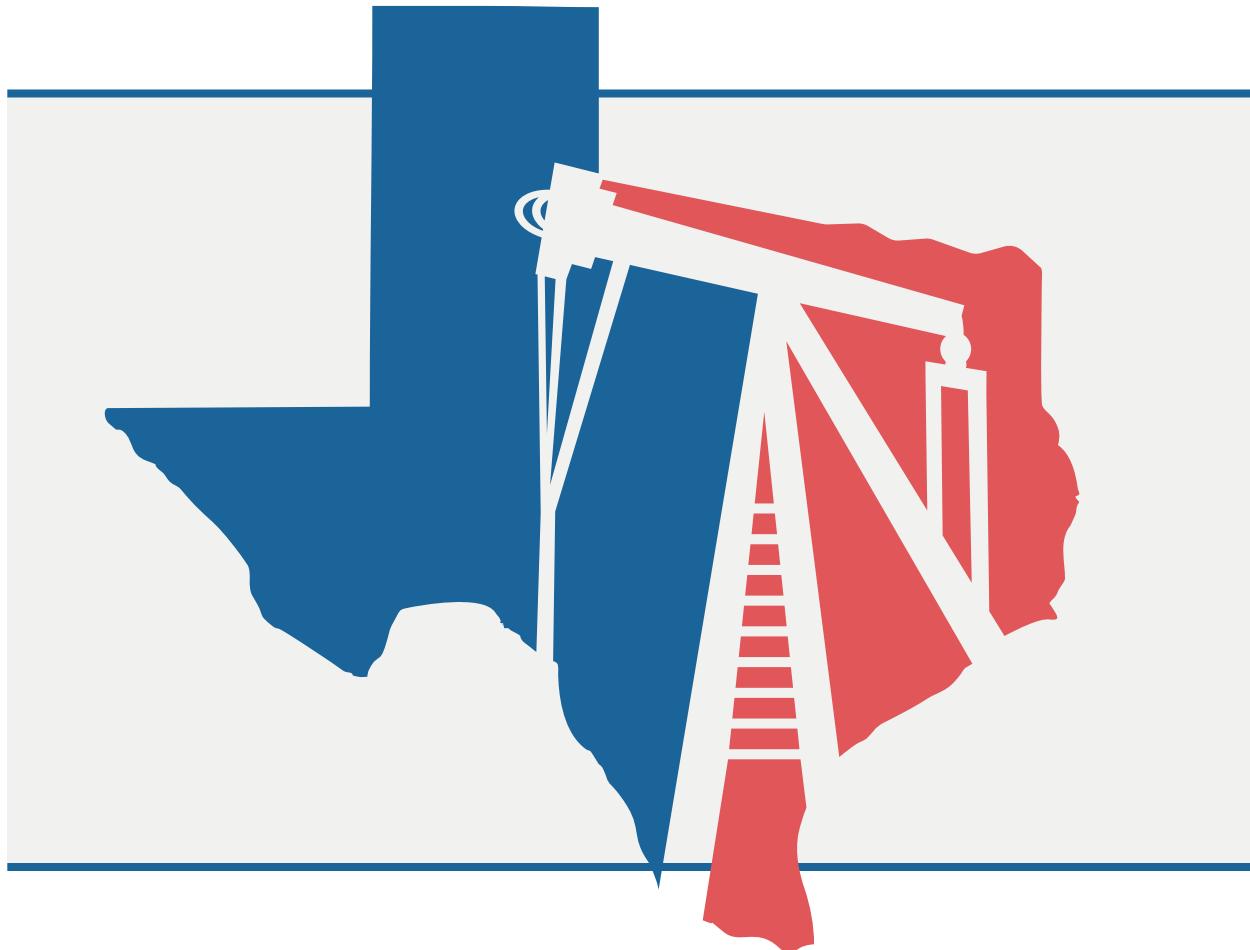




Will Texas Ban Fracking in 10 Years?

INSIGHTS FOR NORTH AMERICA FROM COLORADO'S
QUICK FLIP TO OPPOSING OIL AND GAS



JANUARY 2020

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The Punchline

Nationally, the oil and gas industry looks to Texas as its homeland—proud, productive, and secure. Texans are rightfully proud of their country-sized landscape and economy.

But is it possible that even Texas could become hostile to oil and gas in the next decade? Because if it is possible in Texas, then it's possible anywhere.

In the last 10 years, Colorado has changed from reliably red to undeniably blue. Largely as a result of that shift, the state's oil and gas industry is on its heels, and oil and gas observers consider Colorado one of the most actively hostile states in the country.

Is it possible that even Texas could become hostile to oil and gas in the next decade?

Adamantine looked at the political and demographic trends underlying Colorado's quick transition to assess whether this could happen elsewhere. In Colorado, these key elements caught our attention.

- Political affiliation is closely tied to both concern about climate and concern about oil and gas development.
- Increasingly, Independents in Colorado lean left, increasing the percentage of the population concerned about both climate and oil and gas development.
- Millennials in Colorado are the fastest growing segment of the population, and they reliably lean left.
- Non-white Coloradans lean predictably left; every non-white ethnicity in Colorado is growing except the Hispanic population.

As these developments accelerated, Colorado's politics moved left, with two predictable results: an increasing concern about oil and gas, and a prioritization of climate in the political sphere.

Our research indicates that these trends are being replicated in Texas, along with additional changes unique to Texas, such as an in-migration from more liberal cities and states. Together, these developments raised our eyebrows, because if changing demographics can affect companies' social risk in Texas, then companies across North America should take note.

This isn't politics; this is risk management.

Adamantine had a front-row seat while Colorado's 150-year history of oil and gas production and widespread support morphed into an open, and possibly dominant, hostility. Knowing what we know now from Colorado, we believe that the oil and gas industry across North America, particularly in places considered strongholds of support, has the opportunity to anticipate and mitigate the potential risks that demographic and political changes pose to it.

The first step, of course, is to understand the lay of the land.

Colorado's political and demographic trends are being replicated in Texas, along with additional changes unique to Texas, such as an in-migration from more liberal cities and states.



The Lay of the Land

Colorado and Texas are relevant for this analysis, because they are both significant oil and gas producers. Before exploring each state in detail, this section will set the stage on why political parties matter to this discussion—both with regard to concern about climate and support (or lack thereof) for oil and gas development. We will look at the demographic trends most relevant to the analysis of political affiliation (spoiler: they are age and ethnicity); and, finally, we will summarize the key factors we'll be looking at in Colorado and Texas.

Relevant States

Over the last 10 years, oil and gas production

has grown substantially in the United States. Our country has transitioned from a net energy importer to a net energy exporter—transforming economics and politics around the world.

Within this framework, Colorado and Texas are interesting to look at because they are important oil and gas producers. In a comparison of the average 2018 productions of states¹:

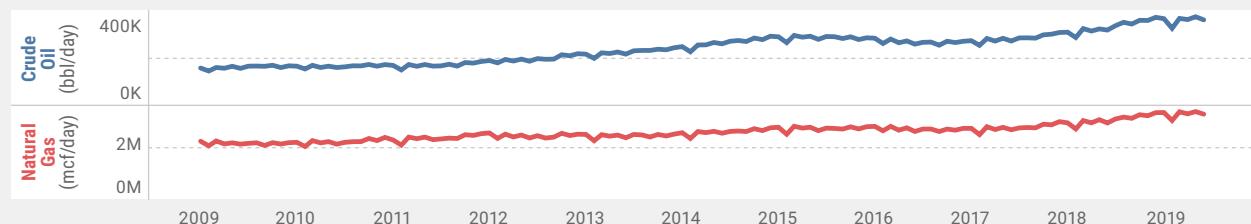
- Colorado: 5th in crude oil, 8th in natural gas
- Texas: 1st in crude oil, 1st in natural gas

The following figure, Figure 1, shows the rise in production over the last 10 years for the U.S., Colorado, and Texas.

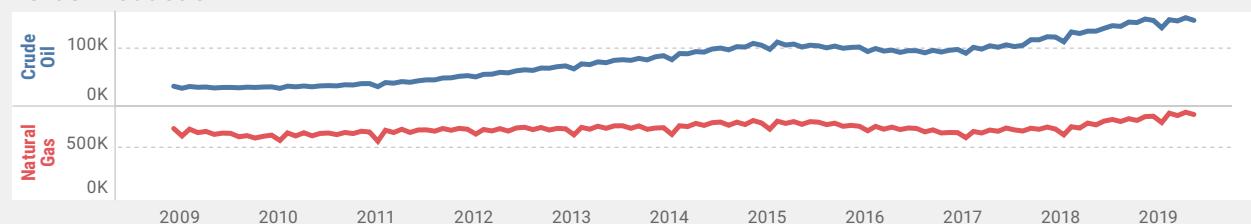
FIGURE 1

Oil and Gas Production for the U.S., Colorado, and Texas

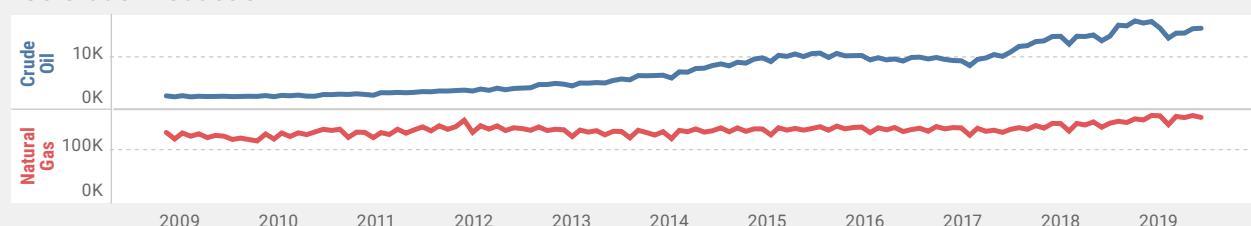
U.S. Production



Texas Production



Colorado Production



From Energy Information Administration. https://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbbl_m.htm. Copyright 2020 by EIA/DOE

1 From Energy Information Administration. https://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbbl_m.htm

Politics and Opposition

In the last decade, support for oil and gas has become increasingly politically polarized by party and tied to climate change. This section will look at the data behind these trends. In many ways, concern over climate has become both (1) a proxy for being liberal, and (2) synonymous with opposition to fossil fuels, including oil and gas and the practice of hydraulic fracturing, or fracking. In addition to these trends, the millennial generation is growing in political relevance and at the same time increasingly concerned about climate and opposed to oil and gas.

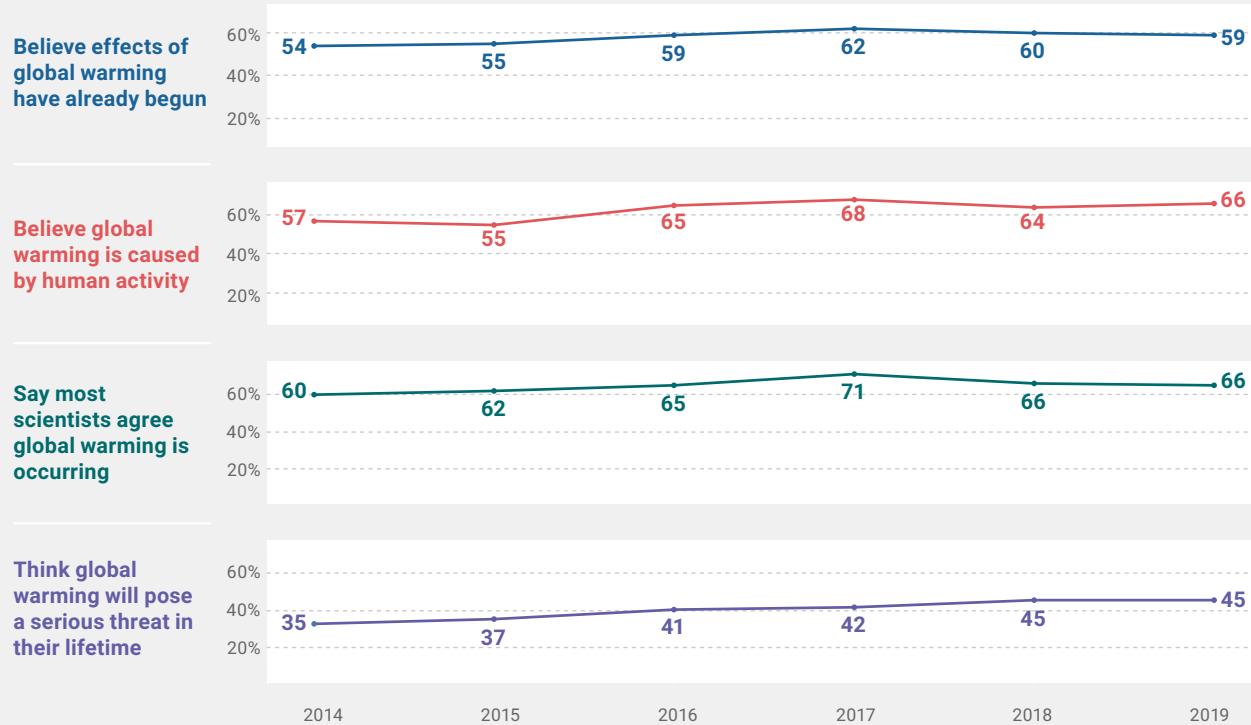
Climate Change

In general, concern about climate change is increasing in the U.S. Figure 2 shows that from 2014 to 2019, U.S. adults show a steady uptick in concern about climate change, increasing between 5 and 10 percentage points across four questions.

The millennial generation is growing in political relevance, increasingly concerned about climate and opposed to oil and gas.

FIGURE 2

Americans' Views on Global Warming



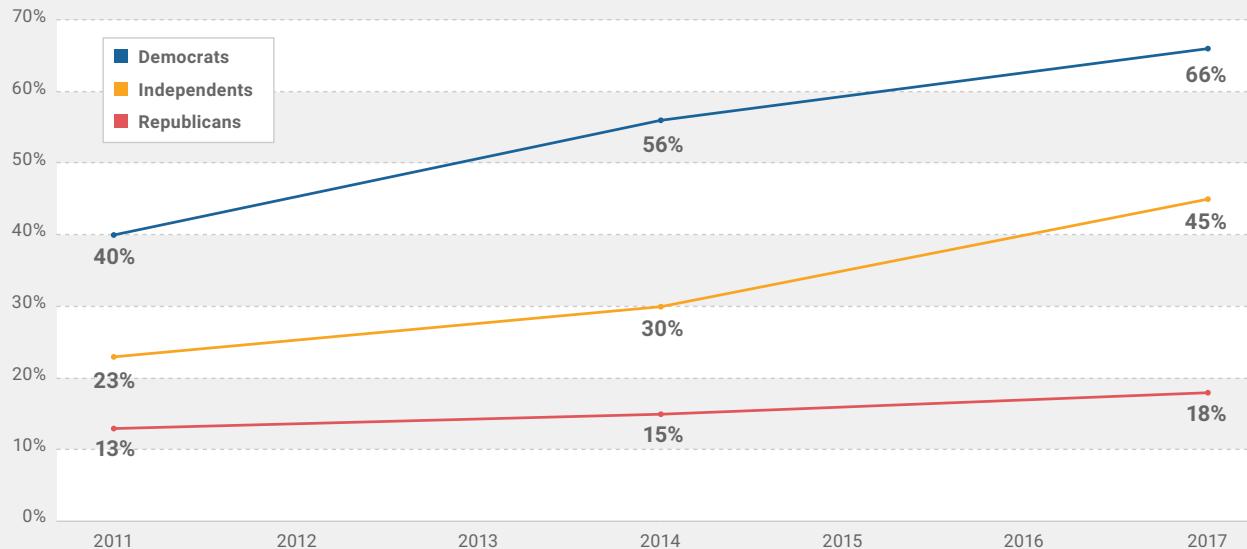
From Gallup Polling. <https://news.gallup.com/poll/231530/global-warming-concern-steady-despite-partisan-shifts.aspx>. Copyright 2018 by Gallup Polling



Concern about climate and prioritization of addressing climate change varies dramatically by party, and this gap has been widening over time, as shown in Figure 3. Climate change remains a partisan issue nationally, with 91% of Democrats and 67% of Independents worrying “a great deal” or “fair” amount about global warming.² Only 33% of Republicans responded the same way. Although this poll only collected data through 2017, trends continue in a partisan direction.

Partisan Concerns About Global Warming

FIGURE 3



From Gallup Polling. <https://news.gallup.com/poll/206513/democrats-drive-rise-concern-global-warming.aspx>. Copyright 2017 by Gallup Polling

Similarly, U.S. adults are split by party regarding support for proposals to reduce the use of fossil fuels (80% Democrats, 37% Republicans support) as well as support for fracking (30% of Democrats, 57% Republicans). See Figures 4 and 5.

Millennials and Politics

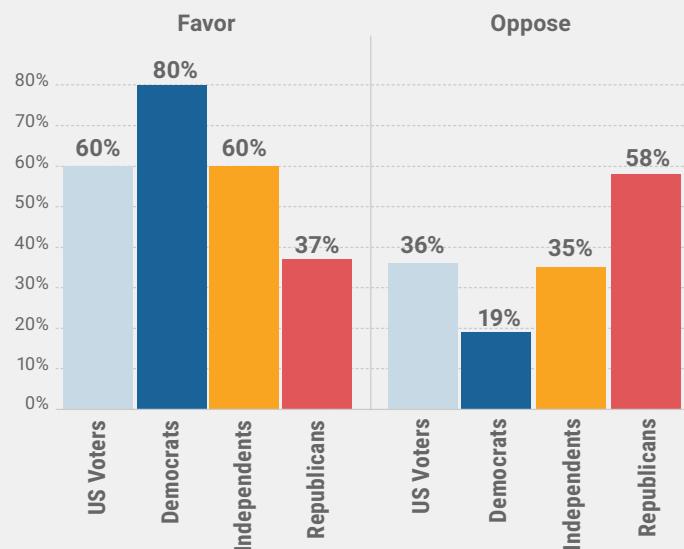
Millennials are poised to dominate other generations across the U.S. in sheer numbers, political relevancy, and purchasing power. What is relevant for our discussion in this report is how millennials are behaving politically.

Younger generations are expected to lean liberal, but it's worth noting how dramatically millennials are leaning Democratic.

2 From Gallup Polling. <https://news.gallup.com/poll/206513/democrats-drive-rise-concern-global-warming.aspx>.

2019: Americans Who Support the Reduction of Fossil Fuels

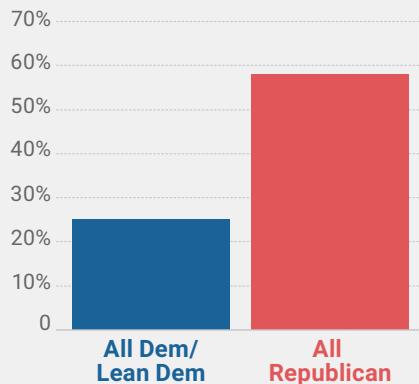
FIGURE 4



From Gallup Polling. <https://news.gallup.com/poll/248006/americans-support-reducing-fossil-fuel.aspx>. Copyright 2019 by Gallup Polling

Support for Fracking by Party

FIGURE 5



From Huffington Post. https://www.huffpost.com/entry/fracking-ban-polling_n_5d701602e4b09bbc9ef95ef9. Copyright 2020 Data For Progress

In 2018, 59% of millennial-registered voters identified as Democrat or leaning Democrat compared to 48% of Boomers and Generation X.³ You can see the millennial trend in Figure 6.

Of course, there are a significant number of conservative millennials; however, even where conservative, millennials demonstrate more concern over climate and less support for oil and gas (Figure 7). Millennials who identify as Republican favor more climate-friendly and anti-oil and gas policies than their counterparts in older generations. Of millennials identifying as Republican, 59% believe climate change is having some effect on the U.S. and only 47% are in favor of expanding fracking (Figure 7). It's fair to argue that millennials will get more conservative as they age, but some millennials are almost 40.

³ From Pew Research Center. <https://www.people-press.org/2018/03/20/1-trends-in-party-affiliation-among-demographic-groups/>

Democratic Advantage Among Millennial Voters Grows

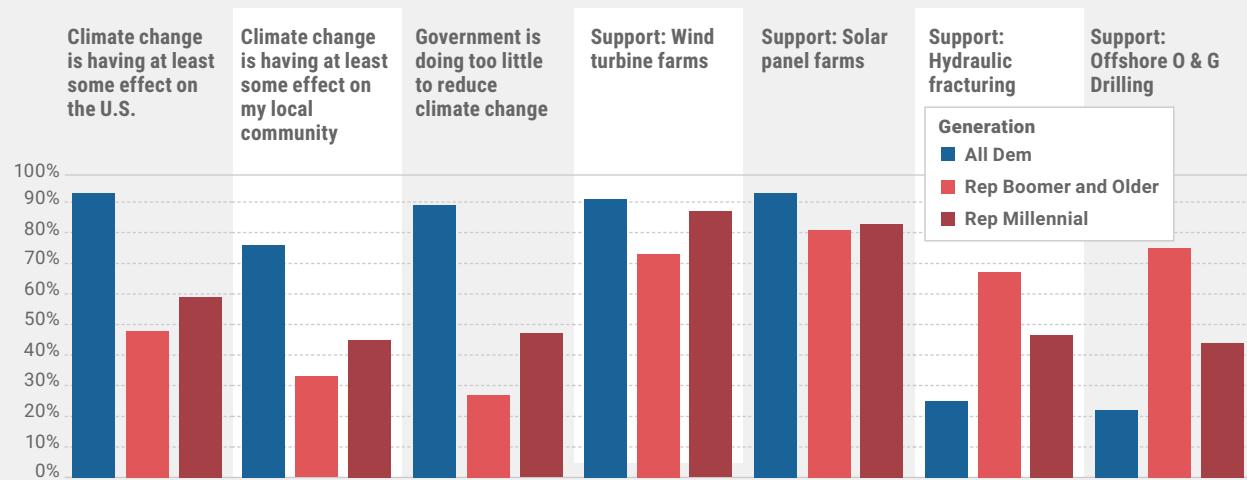
FIGURE 6



From Pew Research Center. <https://www.people-press.org/2018/03/20/1-trends-in-party-affiliation-among-demographic-groups/>. Copyright 2018 Pew Research Center

American Perspective by Generation

FIGURE 7



From Pew Research Center. <https://www.pewresearch.org/fact-tank/2019/04/19/how-americans-see-climate-change-in-5-charts/>. Copyright 2018 Pew Research Center

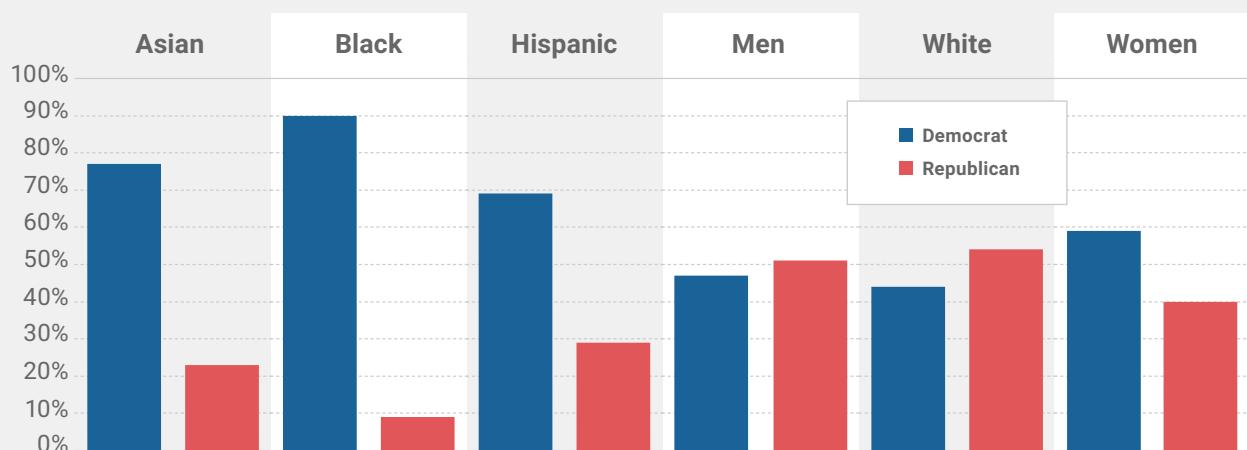


Ethnic Diversity and Politics

Another important trend to understand that will inform the analysis of our two states is the effect of ethnic diversity on politics. Figure 8 shows how non-white voters overwhelmingly voted Democratic in their 2018 congressional race.

FIGURE 8

2018 Reported Vote (Congress) by Ethnicity and Gender



From Pew Research Center. <https://www.pewresearch.org/fact-tank/2018/11/08/the-2018-midterm-vote-divisions-by-race-gender-education/>. Copyright 2019 Pew Research Center

Lay of the Land: In Summary

Before seeking to understand what happened in Colorado, we wanted to establish a few general trends that will impact our analysis.

- In the United States, political affiliation is tied to both concern about climate and opposition to oil and gas development.
- Across the country, millennials are significantly more likely to lean Democratic than other generations.
- People who are not white are more likely to lean Democratic as well.



The Colorado Shift

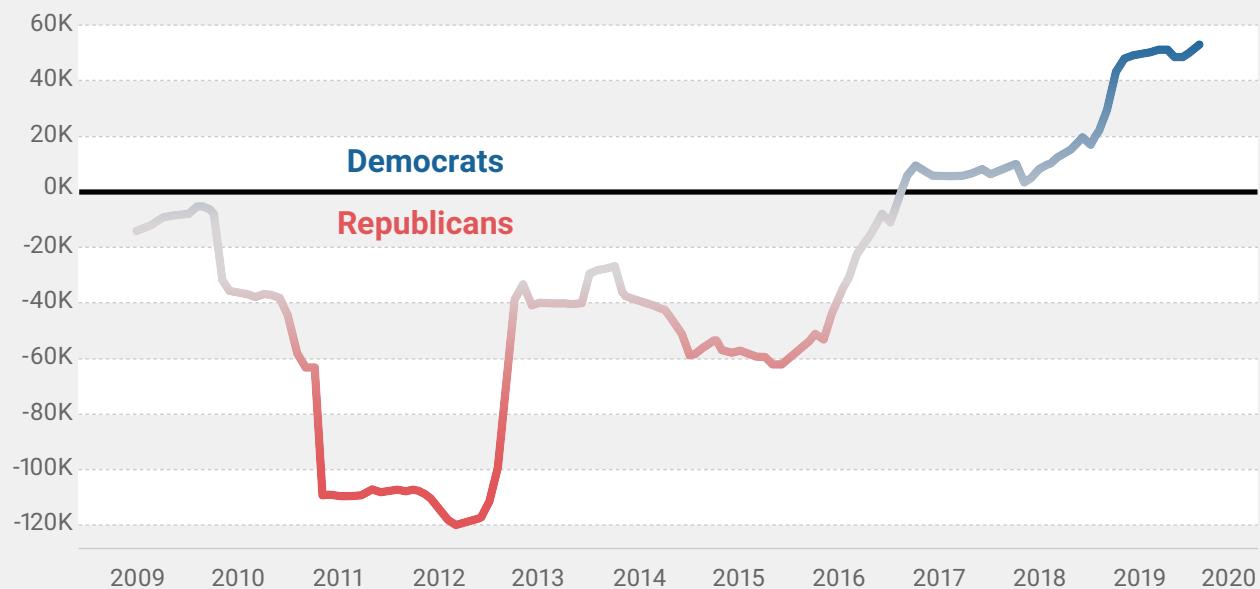
Adamantine Energy had a front-row seat to Colorado's seemingly quick transition from a reliably red state with a track record of supporting oil and gas development to the state today considered one of the most contentious in the nation for such development. This section will look at Colorado's demographic and political shifts from 2009 to 2019 and then look at Colorado voters' feelings about both climate change and oil and gas development in 2019.

Colorado's Demographic and Political Shifts, 2009 to 2019

Since 2012, Colorado voters have transitioned from "leaning Republican" and "reliably Republican" to an electorate increasingly dominated by registered Democrats. Colorado's politics are unique in a number of ways, including: nearly one-third of the electorate is registered Independent (over 1.3 million); voters can participate in either primary (but not both); and, Independents are increasingly leaning Democratic.⁴ Figure 9 shows that Colorado currently has 51,000 more registered Democrats than Republicans.

FIGURE 9

Colorado: Which Party Has More Registered Voters?



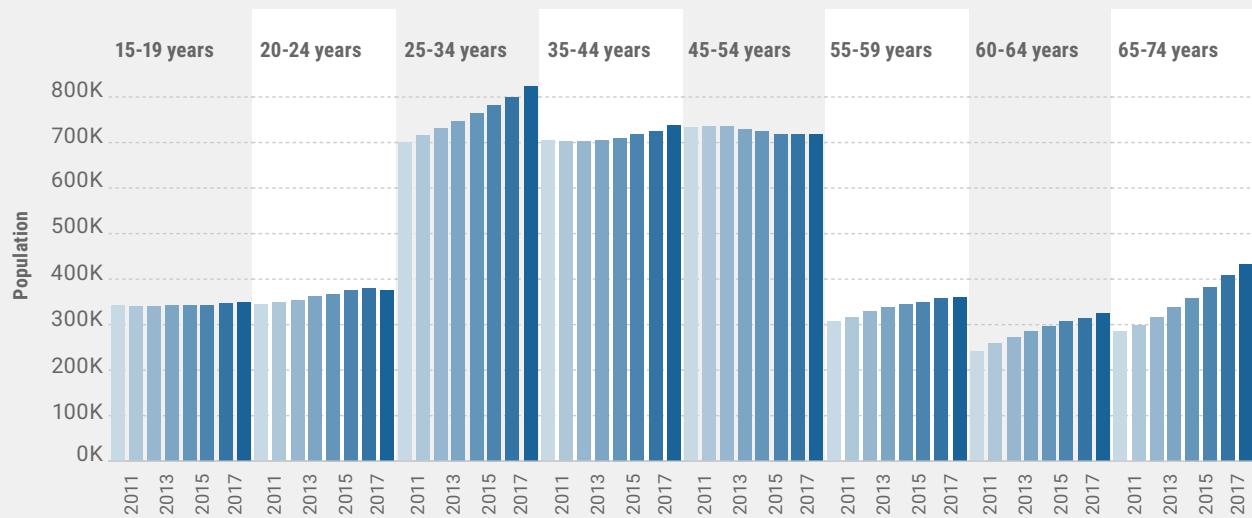
From Colorado SOS. <https://www.sos.state.co.us/pubs/elections/resultsData.html?menuheaders=5>. Copyright Colorado 2020

Not surprising to anyone who lives in a growing urban area in Colorado, the 25- to 34-year old age group is the fastest growing, as shown in Figure 10. The 45- to 55-year age group is decreasing at the highest rate.

4 Colorado Politics. https://www.coloradopolitics.com/news/colorado-turned-blue-but-will-it-last/article_82d0c934-2fa6-5820-8f79-e724390ad74e.html

FIGURE 10

Ages Across Time in Colorado

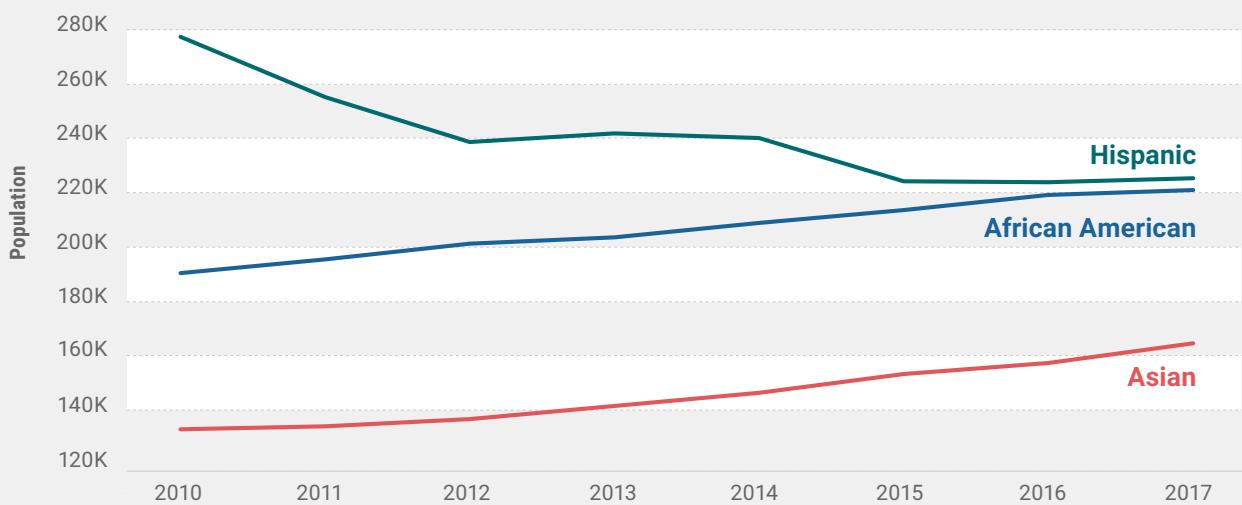


From U.S. Census Bureau. <https://www.census.gov/programs-surveys/acs/data.html>. Copyright ACS 2017

In Colorado, all non-white ethnicity groups except Hispanic have increased in population size. Figure 11 shows population over time of the largest ethnic groups in Colorado.

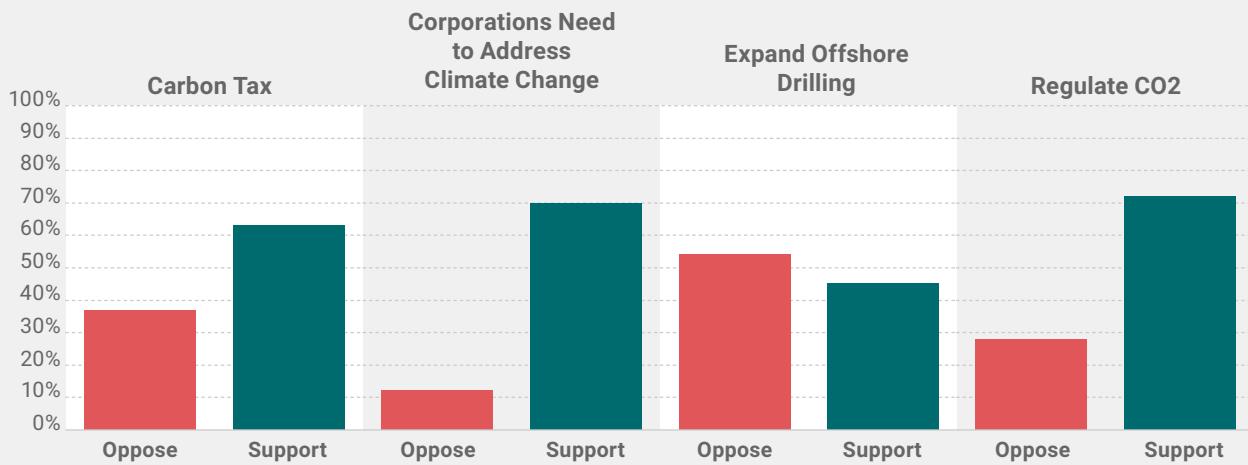
FIGURE 11

Non-White Population 2011-2017: Colorado



From U.S. Census Bureau. <https://www.census.gov/programs-surveys/acs/data.html>. Copyright ACS 2017

Coloradans' Support of or Opposition to Climate- and Energy-Related Action 2019



From Yale Program on Climate Change. <https://climatecommunication.yale.edu/visualizations-data/ycom-us/>. Copyright 2019 Yale.

Coloradans' Attitude Toward Climate Action

Figure 12 gives a snapshot of Coloradans attitudes toward fossil and climate-related topics in 2019. Unsurprisingly, given political and demographic trends in the state over the past decade, a strong majority of Coloradans are now concerned about climate and support climate-related action such as a carbon tax, regulating CO₂, and holding companies accountable for their effects on the climate.

A strong majority of Coloradans are now concerned about climate and support climate-related action.



TEXAS TRENDING?

At Adamantine Energy, we are interested in what is happening in Texas because it's considered such safe territory for oil and gas support. This section will look at Texas' demographic and political shifts from 2009 to 2019 and their voters' feelings about both climate change and oil and gas development in 2019. Are there relevant similarities to changes we saw in Colorado?

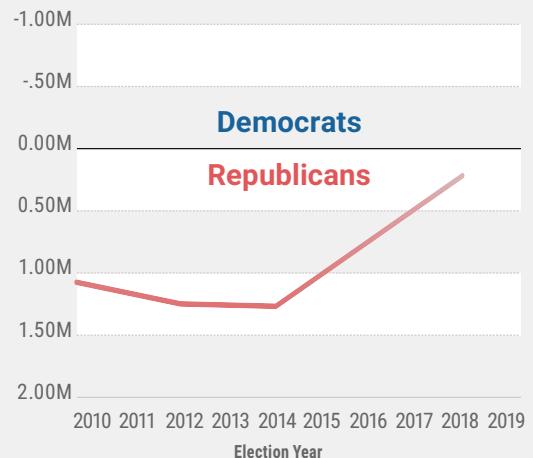
Texas' Political Shifts, 2009 to 2019

Since 2014, Texas has seen its number of Republican voters declining relative to its number of Democratic voters. Although Republicans still maintain a slight advantage (215,000-voter advantage or 3%), the trend is noteworthy and echoes Colorado's shift; see Figure 13.

There are also striking demographic similarities between the two states. In Texas, like in Colorado, the 25- to 34-year-old age group has grown the fastest. Where in Colorado the 45- to 55-year-old age group is shrinking, in Texas all age groups are growing, but this group has the slowest growth; see Figure 14.

FIGURE 13

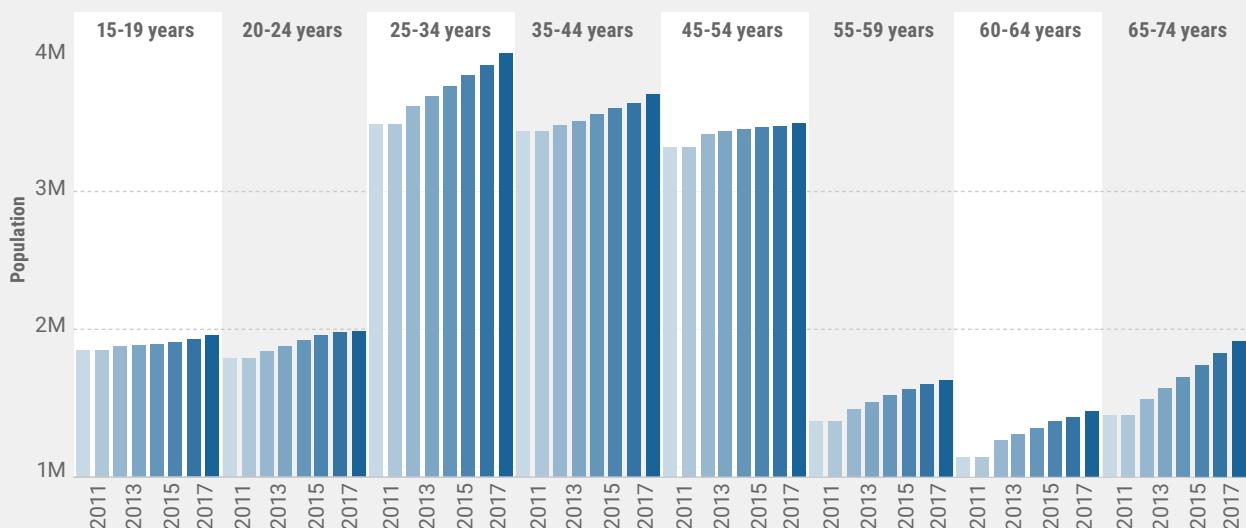
Texas: Which Party Has More Voters? (Senate Elections)



From MIT Election Lab. <https://dataverse.harvard.edu/dataset.xhtml?persistentId=doi:10.7910/DVN/PEJ5QU>. Copyright © 2019, The President & Fellows of Harvard College.

FIGURE 14

Ages Across Time in Texas



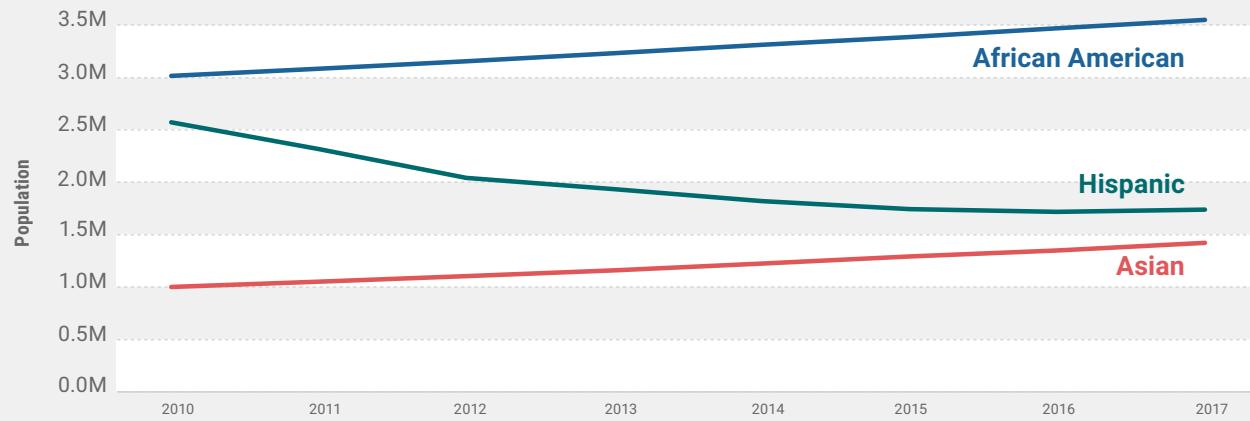
From U.S Census Bureau. <https://www.census.gov/programs-surveys/acs/data.html>. Copyright ACS 2017



Like in Colorado, other than Hispanics, non-white groups are increasing in population. The largest non-white groups are shown in Figure 15.

Non-White Populations 2011-2017: Texas

FIGURE 15



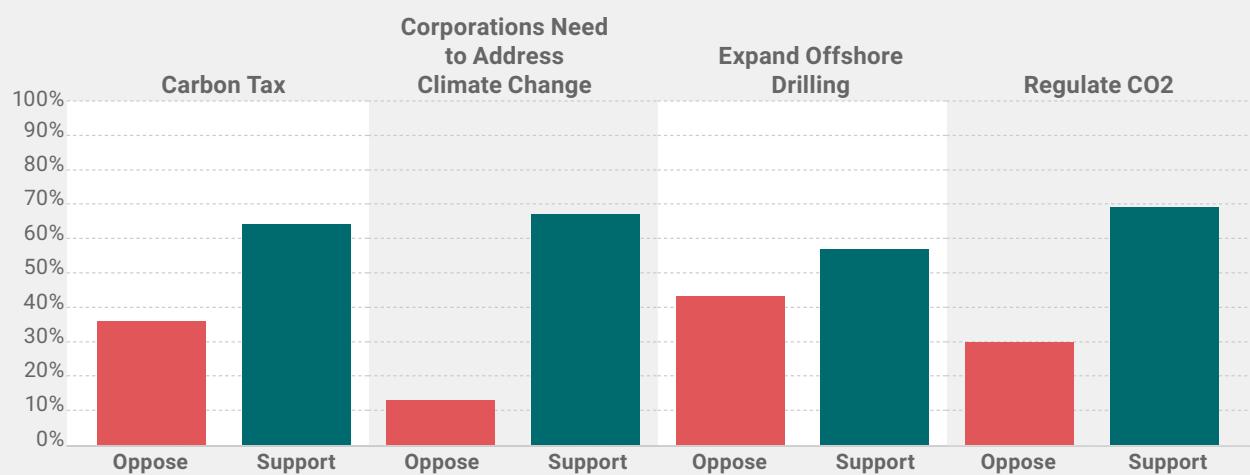
From U.S Census Bureau. <https://www.census.gov/programs-surveys/acs/data.html>. Copyright ACS 2017

Texans' Attitude Toward Climate Action

Figure 16 gives a snapshot of Texans' attitudes toward fossil and climate related topics in 2019. At Adamantine, we were surprised at how similar Texans' responses are to Coloradans' (see Figure 12). Texans also are concerned about climate and support climate-related action such as a carbon tax, regulating CO₂, and holding companies accountable to address climate change. Notably, unlike in Colorado, Texans support expanding offshore drilling—a telltale sign of enduring support for the oil and gas industry.

Texans' Support of or Opposition to Climate and Energy-Related Action 2019

FIGURE 16



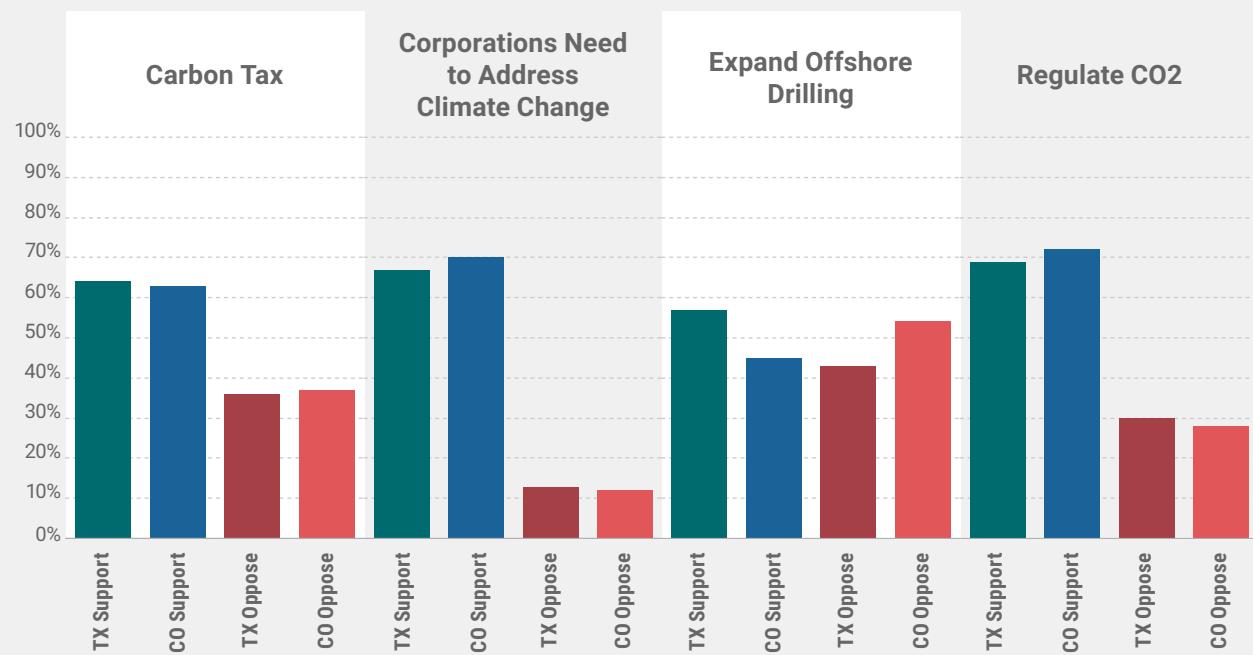
From Yale Program on Climate Change. <https://climatecommunication.yale.edu/visualizations-data/ycom-us/>. Copyright 2019 Yale.

Colorado and Texas Today

Comparing support and opposition for climate and energy-related action from Colorado and Texas (Figures 12 and 16), the parallels are surprising (see Figure 17). At Adamantine, the take-home message for us is that no area is immune from the kind of public shift in opinion about the oil and gas industry that we saw first-hand in Colorado.

FIGURE 17

Comparing Support of and Opposition to Climate and Energy-Related Action



From Yale Program on Climate Change. <https://climatecommunication.yale.edu/visualizations-data/ycom-us/>. Copyright 2019 Yale.

Mitigating Colorado-Like Risk Across North America

Ten years ago, Colorado Democrats could, and often did, support oil and gas. Today, asking them for such support is nearly a complete non-starter.

This isn't politics; this is risk management.

Over the next 10 years, political operatives will battle for the heart of Texas politics. If Colorado history is any lesson, the oil and gas industry will

participate in that battle, equating Republican control with durable political support for oil and gas. That assumption would be a mistake.

This isn't politics; this is risk management. And what happens in Texas is a bellwether for oil and gas support throughout North America.

Because political identity is so tied to concern over climate, which goes hand in hand with opposition to oil and gas, the political changes happening matter to oil and gas companies.

Texas is the figurative heartland and literal headquarters of the nation's oil and gas industry.



The changing political demographics of Texas are like a hurricane building off the coast. We don't know its direction, but we can look at the risk that it's coming for us.

Key trends we are watching in Texas as North American bellwethers:

- Changing demographics, particularly a growing population ages 25 to 34 and increasing ethnic diversity, are trending in a direction that could tip the balance of political parties closer to Democratic-dominated.
- Increasing concern about climate and oil and gas across the political spectrum could empower oil and gas opposition, even in historic strongholds.

Our job at Adamantine is to look at risk. And in the context of this risk, companies should work to take oil and gas out of the political identity equation to mitigate their risk. We recommend that oil and gas companies take on the following.

- **ASSESS YOUR SOCIAL RISK.** At Adamantine, we define "social risk" as the combined political, policy, and community factors that could delay, increase costs for, or stop your project. Social risk also reflects the relevant concerns from your stakeholders and shareholders that affect your financial resilience. We suggest you examine the following areas:
 - Shareholder and institutional investor pressure for decarbonization and environmental action that may turn to you.
 - Aspirational regulatory changes driving energy policy and perception in your operating jurisdiction.
 - Anti-gas climate activism (including divest and local community organizing) in your operating areas.
 - Election game-changers—2020 is the year to think about this at every political level.
 - Peer commitments to decarbonize, invest in innovation, and mitigate methane that will drive pressure on you.

For each, pursue these questions:

- What's our current exposure level?
- What visible threats can we reasonably anticipate?

- Which potential invisible threats lurk beyond the horizon?
- When compared with your peers—where has the bar moved?
- Is there an opportunity for leadership within this risk?
- In what way can we find shared aspirations with our stakeholders in the context of this risk?

Companies should work to take oil and gas out of the political identity equation and take steps to mitigate their risk.

Then take this assessment and prioritize your risk, as you understand it today, by flagging your top three to five vulnerabilities.

- **FOSTER POLITICAL SUPPORT ACROSS THE POLITICAL SPECTRUM.** A Republican-only strategy is unnecessarily risky. This means:
 - Create an internal government-affairs strategy that fosters relationship building with Democrats, Republicans, and where appropriate, Independents. For some companies, the internal culture may require education on the importance of broad outreach.
 - Build relationships with stakeholders, policy makers, and elected officials of both parties. The engagement is often more challenging with left-leaning individuals and groups, but the investment is necessary as part of a long-term outreach strategy.
 - Build these engagements over time, because particularly with a skeptical audience, building trust is key before educational efforts can begin. This requires showing up again and again, deliberately building and then maintaining relationships.
 - Once rapport and trust are established, you may conduct educational efforts on oil and gas in general, and for specific projects.

- **FOCUS ON YOUR MILLENNIAL STAKEHOLDERS.** The oldest millennials are approaching 40 years old, and this group has growing economic and political relevance.

Companies must understand and appeal to the values of millennials. We recommend the following efforts:

- Begin with a foundation of respect. You will find millennials in elected office, holding key policy positions, and leading community organizations. Expect them to be discerning, intelligent, and engaged.
- Meet millennial stakeholders on their turf and in their terminology. This means asking questions and listening carefully about how they gain information and who they trust. Often this will mean engaging in online platforms and creating FAQs targeted to their interests and concerns.
- Engage with your company's millennials to create your strategy. Fortunately, the oil and gas industry has its own vibrant, diverse, engaged, and passionate millennials. Engage them in your outreach strategy, and wherever possible, work with your millennials on your front-line engagement.

● **EMBRACE THE CLIMATE CONVERSATION.**

There's no getting away from climate in a conversation about energy development, and oil and gas companies are better served by engaging head-on. Here are some steps we recommend taking.

- Get fluent in climate and decarbonization language by reading polls, expanding your sources of news to include left-leaning resources, and regularly engaging your staff on these topics.
- Seek to understand the vision your broad group of stakeholders, especially those left-leaning political folks identified above, hold for the future of energy and the environment.
- Look for shared ambitions with them. While your company may be comfortable talking about reducing emissions and your footprint, can you translate that commitment into a vision for decarbonization?

The potential for a place like Texas to have a citizenry likely to increasingly oppose oil and gas provides a stark warning to oil and gas companies across North America. The time is now (or yesterday) to begin a long and sustained outreach effort to audiences that are less likely to be supportive in the future—but are growing in relevance, including all left-leaning audiences and millennials. Today, this strategy represents common-sense mitigation of your social risk.



For more information, please contact:
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All data provided in this report is from third-party sources.

Documentation is available at [GitHub](#).

Readers may download and interact with the datasets used. Any questions about the data or visualizations can be sent to info@energythinks.com

