

THE BIG SECRET ON WALL STREET

The Ultimate Asymmetrical Energy Play

- When Oil Flows, Asymmetry Goes To The Upside
- Neglected For 10 Years, This West Coast Oil Field Opens For Production



FROM THE DESK OF PORTER STANSBERRY

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The Ultimate Asymmetrical Energy Play

When Oil Flows, Asymmetry Goes To The Upside

Neglected For 10 Years, This West Coast Oil Field Opens For Production

*The crystal ship is being filled
A thousand girls, a thousand thrills
A million ways to spend your time
When we get back, I'll drop a line*

It was the summer of 1965, and recent film school grad Jim Morrison was hanging out in Venice Beach, CA, stoned to the gills and writing breakup poetry.

His college girlfriend, Mary, had traded acid trips with Jim for a trip overseas with an Eastern guru – leaving him to crash on a friend's flat roof and survive on baked beans straight out of the can.

Two years before the Summer of Love, Jim had already turned on, tuned in, and dropped out. He spent hours sitting on the beach, scribbling in spiral notebooks left over from his coursework at UCLA, and staring out to sea.

Staring at the crystal ships.

They weren't ships, really – though, seen through an LSD-induced haze, they did resemble giant, lit-up schooners. They were seven 200-foot-tall offshore oil rigs, built to extract oil and gas reserves from the rich underwater oil fields off the Santa Barbara coast, and nicknamed Hondo, Harmony, Heritage, Hidalgo, Harvest, Hermosa, and Holly.

The twinkling lights of the rigs were the powerhouse that kept Santa Barbara's economy humming. Run by oil majors like Exxon-Mobil, Freeport-McMoRan, and Venoco, they dredged up millions of barrels of oil per year, sent them through an underground pipeline for processing at inland refineries, and – over the next decades – would employ thousands as engineers, drillers, and support staff. Venoco's business alone churned out 10,000 barrels a day and brought in \$25 million a month at its peak, making it the leading taxpayer in Santa Barbara County by 2013.

It was one of those offshore oil platforms – local legend says Holly – that inspired Jim's "Crystal Ship" lyric... a song that would later become a smash hit for Jim's dark psychedelic rock band, The Doors.

Later that summer, Jim Morrison would meet keyboardist Ray Manzarek on the beach, share his notebooks full of angsty poetry – and start a meteoric, drug-fueled music career that would produce 14 platinum albums and end with Jim's mysterious death in a Paris apartment at age 27. (The ominously-named "27 Club" also claimed the lives of rockers Jimi Hendrix, Janis Joplin, and Brian Jones, at the same young age and during the same era.)



Jim, Janis et. al. weren't the only stars who flamed out before their time...

Curiously, the seven sparkling crystal ships of Santa Barbara all met an untimely end... on a single unlucky day in 2015... when they became card-carrying members of a different club: victims of the Refugio oil spill.

Pipe Nightmares

The trouble started at 10:55 am on May 19, 2015, when Plains All American Pipeline 901 – the main underground oil pipeline near Refugio State Beach – split right down the middle, vomiting 123,000 gallons of crude oil into the water and onto beaches in Santa Barbara, Ventura, and Los Angeles counties.

In a Keystone Kops sequence of events, Plains Pipeline operators had failed to inspect the pipe properly and then neglected to turn on an alarm that would have warned about its thinning walls. The fallout was devastating – beaches (and the tourist industry) closed for two months and hundreds of protected fish and seabirds died, with damage spreading 150 miles down the Southern California coast in the state's worst oil spill since 1990.

Not helping matters was California Attorney General Kamala Harris, a liberal Senate candidate anxious to prove her environmentalist bona fides by torching the oil industry. “The carelessness of Plains All American harmed hundreds of species and marine life off Refugio Beach,” she told reporters. “This conduct is criminal, and today’s charges serve as a powerful reminder of the consequences that flow from jeopardizing the well-being of our ecosystems and public health.”

She sued the pants off Plains, hitting them with 46 criminal charges and millions of dollars in fines in a drawn-out case that was finally settled in 2024, to the tune of \$72.5 million.

But it was the Santa Barbara oil platforms that really took the fall...

Without the crucial 901 pipeline that connected offshore oil rigs to inland processing facilities like the ConocoPhillips refinery in Santa Maria, the seven “H” rigs now sat “unplugged” from the economy like an adapter with the charging cord yanked out. The local oil business slammed to a halt.

Venoco, the owner of Holly, filed for bankruptcy and sued Plains Pipeline for damages, eventually settling for \$100 million. Exxon-Mobil, the operator of Hondo, Harmony, and Heritage – which together produced as much as 100,000 barrels of oil equivalent per day (“BOE/D”) from the Santa Ynez Unit (“SYU”) oil field – shut down its now-useless platforms and quit drilling in the area. Los Angeles Times reporter Thomas Curwen, visiting Holly in 2019, described the creaking rig, with its oil wells plugged and monitored by a skeleton crew, as a “ghost ship.”

The ongoing fallout for the Plains Pipeline company included hefty damages from the injured oil companies and class-action lawsuits from boat operators, property owners, and out-of-work oil men – not to mention \$150 million spent on cleaning up the massive mess. All told, the Refugio incident cost Plains about \$330 million (not counting Kamala’s \$72.5m in penalties).

For Santa Barbara County, the first three years of the pipeline closure resulted in \$74 million in lost revenue. And that was a drop in the tank compared to the losses sustained by the Ventura Beach oil industry – which has sat idle for the past ten years, anchored by the rusting hulks of metal that were once Jim Morrison’s crystal ships.

Until today.

Burdened by environmental regulations and maintenance costs, Exxon offloaded its closed-down SYU oil rigs to Sable Offshore in February 2024 for \$643 million – 97% of which Exxon financed itself. Now, just 16 months later, Sable is about to deliver in a big way.

It’s this opportunity – the resurrection of the long-dark oil rigs of Ventura Beach – that we are exploring in this issue...

Jim and his girlfriend Mary never got back together, though he always hoped they would. (He later said that the Doors' first four albums were all about her.) Implicit in the farewell of "Crystal Ship" is a hope for a fresh start someday:

The days are bright and filled with pain
Enclose me in your gentle rain
The time you ran was too insane
We'll meet again, we'll meet again

Perhaps those are the lyrics that should echo in our minds as the once-dead oil platforms power up again off the coast of Santa Barbara.

Finally Ready To Open The Oil Spigot

On May 19, Sable announced that it had officially restarted oil production at the site. However, just a few weeks later on June 3, two nonprofit groups – the Environmental Defense Center ("EDC") and the Center For Biological Diversity ("CBD") – obtained a temporary restraining order that prevented Sable from restarting oil flows through the Las Flores Pipeline System. This pipeline is the critical conduit for the transport of oil from Sable's SYU production facilities into the market.

EDC and CBD argued that the key regulator overseeing the pipeline system, the Office of the State Fire Marshal ("OSFM"), violated state and federal environmental laws, including the California Environmental Quality Act ("CEQA").

The crux of the suit centers around the waivers OSFM issued to Sable for the restart of the pipeline system, which allowed Sable to use an alternative method of corrosion control that deviated from the requirements of a 1985 environmental impact report ("EIR"). The suit also alleges the waivers are invalid due to the lack of public review, and requests that Sable perform a new EIR.

But on July 17, Santa Barbara County Superior Court Judge Donna Geck issued a ruling that was highly favorable for Sable.

The ruling stated that Sable can apply for approval from OSFM, and, if approved, the PI will last 10 days during which the environmental groups can attempt to find any issues in the permitting paperwork. But if no critical flaws or errors are discovered, then Sable is cleared to restart the pipeline after the 10-day waiting period.

So while the ruling was not a decisive victory, it was much better than the feared outcome of a prolonged injunction. And in the excerpt from the ruling below, it appears that there is a high bar for the environmental groups to clear in finding any fault in Sable's permits:

“The court concludes that, in the present administrative posture, petitioners are not likely to succeed on the merits of showing a violation of CEQA.”

This essentially removes the worst-case outcome of Sable and OFSM being found in violation of the California Environmental Quality Act. Thus, even though the case is not yet closed at the time of writing, the likelihood of the environmental groups preventing the restart of the pipeline has now declined dramatically.

In short, we believe Sable is likely to gain approval to restart the pipeline and begin generating oil sales within weeks. Once underway, the company estimates production to reach 40,000–50,000 BOE/D by the end of 2025 – **double its prior guidance of 20,000–25,000 BOE/D with much lower operating costs**. Sable forecasts production to ramp above 50,000 BOE/D in 2026.

However, there’s reason to believe that the SYU might produce a lot more than 50,000 BOE/D. SYU is one of the most intriguing energy assets in California. It features massive reserves estimated between 40 and 70 years, it requires little capital investment from Sable since it’s already been developed, and, best of all, it’s easy to extract the oil from it.

After nearly a decade offline, the reservoir seems to have naturally repressurized – leading to higher-than-expected flow rates. Early production tests on Platform Harmony (one of SYU’s three platforms) have yielded stronger output than it was generating when the facility was shut down in 2015 – at that time it was producing 45,000 BOE/D.

We modeled Sable’s 2027 free cash flow (“FCF”) across a range of production scenarios, from 50,000 to 80,000 BOE/D, and Brent crude-oil prices of \$60 to \$80 per barrel. Here’s the output:

FCF Based On Oil Prices / Production (\$millions)

Oil Production (BOE/D)	Oil Price Per Barrel		
	\$60	\$70	\$80
50,000	\$272.6	\$424.1	\$575.5
60,000	\$454.2	\$635.9	\$817.6
70,000	\$635.7	\$847.7	\$1,059.8
80,000	\$817.7	\$1,059.9	\$1,302.2

Even in the lowest-case scenario – say, 50,000 BOE/D at \$60 oil – Sable would still generate \$273 million in free cash flow, or \$3.21 per share. That’s a solid baseline. But in our base case (60,000 BOE/D and \$70 oil), Sable would produce \$636 million in FCF, equating to \$7.48 per share – and trade at just 6x enterprise value/FCF at current prices.

EV/FCF Based On Oil Prices / Production

Oil Production (BOE/D)	Oil Price Per Barrel		
	\$60	\$70	\$80
50,000	13.9	9.0	6.6
60,000	8.4	6.0	4.6
70,000	6.0	4.5	3.6
80,000	4.6	3.6	2.9

FCF Per Share Based On Oil Prices / Production

Oil Production (BOE/D)	Oil Price Per Barrel		
	\$60	\$70	\$80
50,000	\$3.21	\$4.99	\$6.77
60,000	\$5.34	\$7.48	\$9.62
70,000	\$7.48	\$9.97	\$12.47
80,000	\$9.62	\$12.47	\$15.32

If Sable can ramp production to 70,000 BOE/D – well within the realm of possibility – it could generate \$850 million in free cash flow, or \$9.97 per share, at \$70 oil. That would make Sable a cash-printing machine with substantial optionality for buybacks or dividends.

Taking this a step further, we've modeled Sable's share price based on FCF at several multiples to illustrate where shares could trade in 2027.

Assumed Share Price In 2027

Projected 2027 Price/FCF Multiple	Bear Case: \$60 Oil, 50,000 BOE/D	Moderate Case: \$70 Oil, 60,000 BOE/D	Bull Case: \$80 Oil, 70,000 BOE/D
7.5	\$24	\$56	\$94
10	\$40	\$75	\$125
12.5	\$56	\$94	\$156

If Sable achieves 30% to 40% FCF margins – as management suggested – it should command a premium multiple. For perspective, the S&P 500 trades for a 26x price/FCF, so even the higher valuation bands leave plenty of margin for safety.

Under current oil prices, Sable shares could hit \$75 in 2027 – a 138% gain from current levels (around \$32 per share). Under our more optimistic scenario – \$80-per-barrel oil and 70,000 BOE/D – shares could hit \$125 for a 290% return in just over two years.

We've also modeled the bear case based on Sable's low-end of production and if oil prices fell below \$60, due to a recession or if an OPEC price war were to erupt, with 20% downside from today's share price.

A key part of the bull case is leadership. Sable CEO James Flores is a 40-year, oil-and-gas veteran who has chaired or led five exploration-and-production companies, four of them public, and has deep experience in California offshore drilling. Flores had his eye on SYU for years. Now, he finally gets to unlock its potential. Management has already hinted at a potential \$4 dividend in 2026 – and based on these projections, that's highly achievable.

That would open the door for institutional funds, and once the oil analysts on Wall Street realize the scope of the opportunity – in the asset itself and management team – it would send shares higher.

Please keep two things in mind:

1. After starting production, Sable will need to repay Exxon its loan of \$623 million 240 days after commercial production commences. Sable will need to raise capital to repay the loan, but the company should not have an issue with financing. Sable filed for a \$1.5 billion shelf offering in April – meaning it can sell up to \$1.5 billion worth of bonds or securities – giving management flexibility to pay off the debt.
2. Regulatory and political risk in California won't go away, although the latest developments mark significant operational momentum for one of the most promising relaunches in the U.S. energy space.

Action to Take: For the latest updates on our open positions and current buy up to prices, please visit our live portfolio [here](#).



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