Comments on Risk Management, Financial Assurance and Loss Prevention

History

In my public comments from 2015 for the 2107-2022 OCS Leasing Program (https://tedspublicpolicy.weebly.com/uploads/9/9/0/4/9904803/dpp_comments_march_2015.pdf). I forecasted that the nation would become a net exporter of oil. My forecast was correct.

Oil is the new coal

Because of the technology revolution of hydraulic fracking created the abundance of oil and gas production. This abundance caused the replacement of coal as the source of energy for electricity generation. It also is forcing the closure of nuclear electric plants, because they are not cost competitive. Solar and wind generation of electricity has also emerged. Coal is being driven out of the market because it is a high cost and a dirty fuel.

A similar process is occurring for oil. Oil is primarily the fuel for transportation. The next page is an extract of an EIA publication showing the price comparison of gasoline and Compressed Natural Gas (CNG). CNG is generally cheaper than gasoline. There is a significant infrastructure cost of converting to CNG. The first adopters of CNG are fleet operators such as local bus services. Oil as a transportation fuel is facing competition from a cheaper and cleaner fuel. Oil is facing another challenger in the adoption of electric vehicles. The stock market places a larger market cap for Tesla than the sum of Exxon Mobile and Chevron. Further is the threat to oil from regulation. California plans banning the sale of gasoline powered cars in 2035 and heavy trucks by 2045. Finally, there are other technologies under development like hydrogen and fuel cells. Over the next decades the oil industry has a path way similar to what is happening to the current coal companies. In 2019 eight coal companies filed for bankruptcy. In April of this year, the price of oil did go negative.

This rule making assumes that when an oil company files for bankruptcy. There will be a buyer who will purchase the oil reserves. In a market with shrinking oil as the transportation fuel, who will be the buyers of these reserves? The assumption the reserves of bankrupt companies can be

Compressed Natural Gas (CNG) Relative to Gasoline, cont.

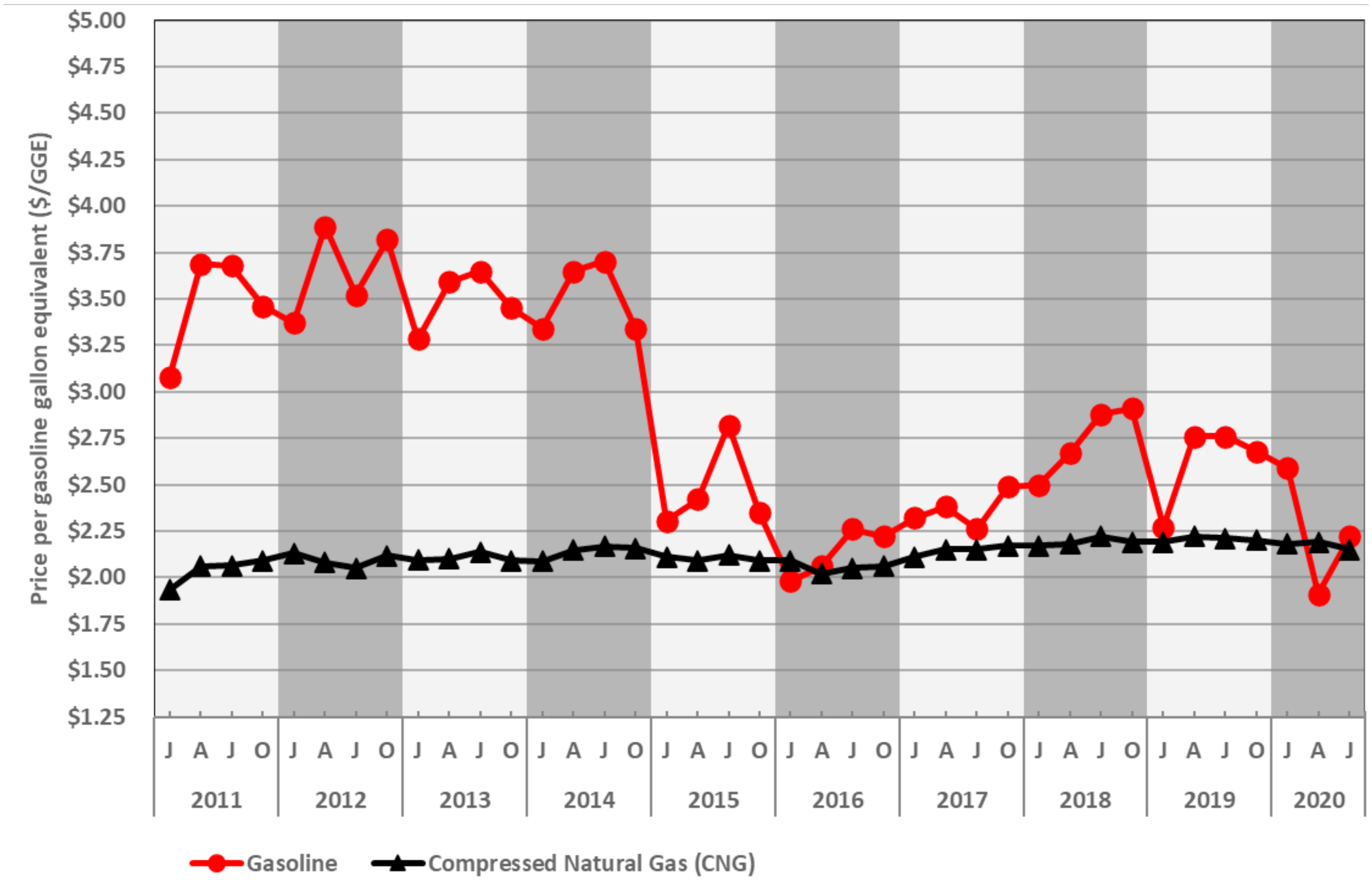

FIGURE 3
HISTORICAL COMPRESSED NATURAL GAS (CNG) PRICES VERSUS GASOLINE

sold now is valid. In the future it may not. BOEM needs to prepare for this future of a shrinking oil industry.

Proved Reserves

The proposed rule require that the lessee submit a reserves report. BOEM already creates reserves on a lease basis. When I worked at MMS, I routinely received reserves estimates by lease from Resource Evaluation. BOEM should use its own estimates.

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