



Death Does Come in Many Forms 4/19/22

Delay is a very effective way to bring about the death of a project; the Keystone Pipeline, leasing, and permitting are just a few examples. Rising costs, either through market pressures or deliberate government policies, is another.

Both Candidate Biden and President Biden want an end to drilling on federal lands. Where leases exist, the government has been slow to grant permits. He halted both the Keystone project and new leasing in his very first week in office. A ruling by a federal judge was the only thing that stayed the Administration halt on leasing.

The Administration is betting that the American public has a short memory. They would have you believe that all things wrong with the economy is Russia-inspired. Yes, Russia is responsible for some of the inflation we are experiencing. The price of wheat, steel, neon gas, and a whole host of minerals and material can be blamed on Russia's invasion of Ukraine, but not the high price of gasoline. Gasoline prices had risen well over a dollar a gallon long before the Russian invasion. And up until a couple of weeks ago the world lost very few Russian exports. Prices spiked initially with the Russian invasion because the market incorrectly assumed that Russian exports were already off 2-3 MMB/D. Prices will spike if we now lose that volume or more, but up until very recently the high prices were due to the fact the supply has been insufficient to meet demand. **In that environment, prices must rise to bring demand down to available supply.**

The Administration has panicked over the price of gasoline and its impact on the midterm elections. And who can blame them! Yet, they



seem to be making all the wrong decisions. The White House action this past week is another perfect example of what I mean.

In an attempt to address the high gasoline prices, the President announced a new lease sale for oil and gas. Because of this, the general public sees him as someone willing to compromise. It gets play, it is reported in the media, but how does it help in reducing the current price of gasoline? **It doesn't, it can't.** The process of bidding for new leases until actual production (if you are lucky enough to find oil) is a 5–10-year process at best. It's something we should do, but it has no impact on today's pricing. Secondly, this was more about looking like the Administration was doing something positive when in fact that was not the intent. They admittedly recognized that the acreage being offered through several lease sales will be 80% less than the acreage initially evaluated.

One of the not-so-hidden objectives of the Administration is to raise the cost of doing business. They will raise the royalty rates from 12.50 to 18.75%, a 50% increase. Companies who earn the right to drill on Federal lands must first pay a bonus. The highest bidder wins the right to drill. Since you pay the bonus up front, you have an incentive to drill as soon as possible to monetize the bonus payments. Royalties, on the other hand, tend to discourage drilling towards the end of the production cycle since costs are generally rising, yet you have to share a percentage of revenue with the government. An increase of 50% in the royalty rate would speed up the end of the production cycle

This results in reducing the economic life of the lease ,bringing about a premature end to the drilling.