

Insurance linked securities: Drill baby ... doh

Just as Obama was set to allow offshore drilling, the Gulf of Mexico rig explosion reminds America why the ban was put in place. BRAVE Partners believes that this is a defining moment in US energy policy.

May 2, 2010

Consumption

America has the reputation in the world as a consumer. That reputation is at its zenith in regard to oil. As the debate around energy in the 2008 Presidential election highlighted, America is prepared to drill for oil almost anywhere – apart from its own back yard. Love her, or hate her, Sarah Palin was brought into the McCain campaign as she was a strong proponent of the “drill baby drill” agenda. She is even in favour of oil exploration in the Arctic National Wildlife Reserve (ANWR) region in Alaska, the State where she was Governor.

Offshore drilling

Since a major leak at a rig six miles off Santa Barbara, California in 1969 triggered a popular backlash, America has banned oil exploration in the deep water off its shores. Even the controversial George W. Bush, complete with his Texas (oil) roots, did not feel confident enough to fully repeal this ban.

Energy needs

The result of limited production and significant demand is the need for America to import vast quantities of oil. These import needs are now almost universally accepted as unsustainable.

US energy policy

The BRAVE partners believe that the recent Gulf of Mexico rig explosion will be a defining point in US energy policy. Obama was initially against lifting the offshore drilling ban. However, the reality of oil sticking at \$70+ a barrel, even in a period of slow economic activity and Americans faced with the unthinkable – gas (petrol to Europeans who need some translation) at \$4 a gallon.

America needs more energy – preferably home produced energy. McCain always presented the lifting the offshore drilling ban as an interim measure. The US energy agenda has to shift to renewable and sustainable energy.

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The Pickens Plan

T. Boone Pickens, a billionaire from Texas oil, has already put forward the Pickens Plan. The original Pickens Plan was based around wind power from the mid-west. Boone dubbed this area as: "The Saudi Arabia of wind power". Whilst that might well be true, exploiting it still has issues. The main two issues are:

- Transmission. The mid west, in the centre of the USA is far from the major areas of demand on the coasts.
- Storage. If a significant proportion of the USA power is derived from sources where the production cannot be controlled (eg wind), then there are serious issues in terms of balancing the grid (ie supply must meet demand at each instant). This is an awkward problem as it is difficult to store electricity.

Jumping Jack Flash

As the lyrics to the Rolling Stones' song Jumping Jack Flash would put it is the answer that the USA seems to be promoting is [natural] gas! gas! gas! As to be expected one of the major proponents of this solution is Aubrey McClendon, CEO of Chesapeake Energy, the largest independent gas company in the USA. BRAVE Partner, Christopher Cloke-Browne, is currently sitting in New York watching adverts from the America's Natural Gas Alliance, an industry body that includes Chesapeake, with a predictable content. BRAVE Partners does not deny that the natural gas option is a viable interim option, which the proponent are wise enough to promote it as.

"America must get to a position of sustainable energy, but with all of the issues around oil that have recently emerged there will now be considerable popular pressure not to drill."

Christopher Cloke-Browne
Managing Partner
BRAVE Partners LLP

Sustainable

America must get to a position of sustainable energy, but with all of the issues around oil that have recently emerged there will now be considerable popular pressure not to drill. Interestingly, Kenneth L. Salazar, the US Interior Secretary, was on CNN this morning. He clearly stated that America needed to explore for oil in deep water – but the public pressure against will build as more oil comes ashore. Many miles of sensitive US coastline are threatened, together with their fishing communities and the leak, 5,000 feet under water, still has not been stemmed. Florida is threatened and it is a battleground state for Presidential elections. Obama is very aware of the impact that the slow response to Hurricane Katrina has on President Bush. Public opinion around the Gulf of Mexico (GOM) will matter in Washington.

Impact of the GOM rig explosion

The BRAVE partners believe that the Gulf of Mexico (GOM) rig explosion will be a defining event in switching the US to an all out search of new forms of energy. Texas is already a large producer of biofuels from corn. This is a highly criticised form of energy. There is considerable debate over the economics of switching food to fuel and whether this is an efficient use of the crop. BRAVE Partners has not yet seen a biofuels business plan that makes sense. However, other technologies, such as methane to methanol, are promising.

The nuclear option

Under the radar, nuclear energy is making a come back. Nuclear had it's own version of a major leak in Chernobyl. However, an increasing number of people now see nuclear as the only option

BRAVE Partners services

BRAVE Partners has a track record in converting teams with ideas into viable, funded businesses. The firm will consider any business plan, but it will be subject to extensive expert scrutiny by the firm. The GOM oil platform explosion will put sustainable energy at the top of the agenda in the USA. The business environment could not be more favourable for the right plan.

Interaction

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- BRAVE Partners believes that the environment is ideal for businesses that can put forward plans that create true energy efficiencies and new forms of truly sustainable energy.
- The challenge is tough, but the rewards are significant.
- BRAVE Partners works with management teams to convert concepts into funded, viable businesses. The firm will consider any management team, but has a skeptical approach. The plan must make sense to the BRAVE Partners and their high profile Advisors before the firm will take on a project.

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