Proposal: 1629 (AF22) Standardized Approach for Calculating the Exposure Amount of Derivative Contracts

Description:

Comment ID: 133489

From: Lario Oil & Gas, Dru Avery

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Subject: R-1629 Standardized Approach for Calculating the Exposure Amount of Derivative Contracts

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Comments:

Date:Feb 08, 2019

Proposal:Standardized Approach for Calculating the Exposure Amount of Derivative Contracts [R-1629]
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Your comment:As an oil & natural gas producer, and frequent end-user of commodity derivative contracts, the proposed standardized derivative exposure calculation will assuredly have a negative impact on the energy industry. As an upstream energy company, operating cash flow can be highly volatile as commodity pricing is often influenced by geopolitical & economic factors outside our control as an operator. In order to manage this commodity price volatility, we frequently enter into derivative contracts to mitigate cash flow instability and ensure that we have a steady stream of operating cash flow to underpin our capital expenditure programs. The proposed rule will result in less favorable pricing for the derivative contracts, and may disincentivize their use if the pricing impacts are overly onerous to the end users. Undoubtedly the oil & gas industry has provided numerous employment options for rural communities that may otherwise not have a source of long-term, sustainable employment, and oil & gas producers pay meaningful amounts of production taxes to the states and municipalities in which they operate. While a $1-2 per barrel swing in pricing may seem relatively small, it can sometimes result in a decision to either suspend or continue developing assets. Increased reliability of future cash flows, usually facilitated in-part by commodity derivative contacts, provides undisputed economic benefits on a local and national scale, and increasing the cost of these contracts to end-users could results in muting some of these economic benefits.