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Energy reserves proposal has Chevron over a barrel

David R. Baker | May 23, 2016

Photo: Rich Pedroncelli, Associated Press

In this Monday, Feb. 8, 2016, file photo, gas prices are displayed at a Chevron gas station in Sacramento, Calif. Chevron faces a shareholder resolution Wednesday that would change how it accounts for energy reserves.

Oil companies measure their global petroleum reserves in terms of barrels — the more, the better, as far as Wall Street is concerned.

Giant companies like Chevron Corp. and ExxonMobil carefully calculate how much oil and natural gas they can draw from the fields under their control. They constantly hunt for new reserves to replace every drop they pump from the ground. Let that reserve number slip, and risk the wrath of financiers who rate the companies on their ability to find more oil.

There's a big hitch in this familiar measure, though: What if the oil companies aren't allowed to pump all of their reserves? What if governments, committed to fighting climate change in the wake of last year's Paris accord, won't let them?

On Wednesday, Chevron Corp. shareholders will vote on a non-binding proposal that could offer the industry a way out — and give oil companies an incentive to pour their money and talents into developing cleaner sources of energy.

The proposal, pitched by an environmentally oriented shareholder activism group,would recommend that the country's second-largest oil company report its reserves in terms of energy content — measured in British thermal units — in addition to the older, barrel-based system.

Board urges rejection

Say Chevron or another oil company started investing heavily in solar power plants or wind farms instead of hunting for more oil. The annual energy output of those facilities could be converted into BTUs and counted along with the company's existing oil reserves — all of them treated as energy-producing assets that would earn the business and its shareholders money.

“In a carbon-constrained world, what’s going to happen with these companies?” asked Danielle Fugere, president and chief counsel of the activist group **As You Sow**. “Traditionally, they’ve had to replace their reserves, or the market penalizes them. So how do they make this transition that we think is necessary?”

Chevron’s corporate board, however, has recommended shareholders reject the proposal, calling it unnecessary and confusing. **As You Sow**, based in Oakland, has presented the same proposal to ExxonMobil shareholders for their annual meeting on Wednesday, with Exxon’s board also opposing the change.

Both oil companies have, in recent years, faced a flurry of proposals from activist shareholders asking for more attention to and reporting on the risks of climate change. So far, however, most oil company investors have greeted such proposals with little enthusiasm.

Big Oil, or Big Energy?

Chevron’s board notes that the U.S. Securities and Exchange Commission has established rules for barrel-based accounting, not for reporting reserves in BTUs.

“The SEC standards apply — to do anything different would be confusing to shareholders,” said Chevron spokesman Kurt Glaubitz. “Stockholders are free to convert reported figures into any units they want.”

Supporters of the idea, however, argue that many companies in many industries report information not required by the SEC. Adopting the BTU system in addition to the existing barrel-based reserve figures could provide a bridge to a future in which oil companies throw their considerable resources behind other sources of energy that help fight global warming, they say.

“It would be making a statement that Big Oil is really Big Energy,” said Andrew Behar, **As You Sow**’s chief executive officer. “When we have conversations with them, they keep saying, ‘No, no, we’re an energy company.’ And we say, ‘But you report in oil.’ You are what you measure.”

Hybrid reporting already

Oil companies, of course, don’t just pump oil. Natural gas has become an increasingly important product for them, particularly in the United States. Their system for reporting reserves, as a result, is already a kind of hybrid.

The companies report reserves in terms of “barrels of oil equivalent,” a unit of measure pegged to the energy content of a standard, 42-gallon barrel of crude oil. The energy content of natural gas reserves can be converted into oil equivalents, so the companies can report one set of standardized numbers.

As You Sow’s proposal would expand that notion of comparing one resource to another, measuring all of an oil company’s reserves or energy-generating assets in BTUs. (One BTU represents the amount of heat required to increase the temperature of 1 pound of water by 1 degree Fahrenheit.)

A solar power plant is a very different asset from an oil field. But each solar plant, Fugere and Behar note, has a projected minimum life span, and an expected energy output each year. Its owners likely had to sign long-term power purchase contracts with utility companies — obligating the plant to supply a set amount of power year after year — before the banks were willing to finance its construction. So its predicted output can be measured in BTUs.

“It’s math,” Behar said. “It’s not that difficult.”

Not all analysts agree.

Kenneth Medlock, an energy fellow at Rice University’s Baker Institute for Public Policy, said that counting everything in BTUs could actually muddy the water for investors. Fuels aren’t priced according to their BTU counts, after all, so converting every asset into BTUs wouldn’t help oil company shareholders gauge future revenue potential. And the financial industry already has ways to estimate the value of assets such as solar plants and wind farms.

“I understand the rationale,” Medlock said. “It just seems incredibly convoluted.”

Change ‘not a big deal’

But others see value in the idea.

Amy Myers Jaffe, a longtime oil market expert now with UC Davis, said BTU reporting could make sense in a world where some oil companies are already investing heavily in renewable power. French oil company Total, for example, is now the majority shareholder of San Jose’s SunPower Corp., one of America’s largest solar companies.

“What does it cost the companies to list reserves in BTUs as well as oil equivalent? It’s not a big deal,” Jaffe said. “When people start to have a more diverse base for their businesses, it’s natural that they’re going to start reporting things that they didn’t in the past. I would expect, over time, more and more people will learn to think in BTUs.”

*** This story appeared in print on May 24, 2016 with the title “Energy counting plan could help Chevron lean green”.**

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