BP CEO Hayward faces tough talk at House committee hearing

- BP CEO Tony Hayward June 17 deflected a series of pointed questions on the Macondo incident at a sometimes heated hearing of the US House Subcommittee on Oversight and Investigation. When some panel members accused Hayward of dodging tough questions, Hayward responded he was “not stonewalling.” I simply was not involved in the decision-making process. Hayward denied several times that decisions were made by BP on the Deepwater Horizon drill rig that put cost savings over safety. “There is nothing I’ve seen in the evidence so far to indicate anyone put cost ahead of safety,” Hayward said. “If there is any evidence people put cost ahead of safety, then I will take action.” Hayward’s responses frustrated both Democrats and most Republicans on the committee. “With all due respect, Mr. Hayward, I think you’re copping out,” said Representative Phil Gingrey, Republican-Georgia. “It seems to have more concern for big corporations and their shareholders for the rest of 2010. The company’s expanded asset sale plan alongside its agreement to divest non-core upstream assets will form a significant portion” of the total, the spokeswoman said. BP June 16 announced an expanded asset sale plan alongside its agreement to put $20 billion into escrow to cover claims resulting from the Gulf of Mexico oil spill and to suspend dividend payments to shareholders for the rest of 2010. The company had previously been planning to sell around $2 billion to $3 billion of assets over the
same period, the spokeswoman said. BP said it had decided on the big increase in planned asset sales as well as a “significant reduction” in capital spending in order to increase its available cash resources. The company said it expected to generate more than $30 billion of cash flow from its operations in 2010, before taking into account the costs relating to the spill. BP also has the option to borrow more money, if it needs to, as its current gearing level is relatively low, and at the bottom of its own target range of 20%-30%.

BP is in talks with five investment banks about launching a corporate debt offering to raise $5 billion to $10 billion, CNBC reported June 17. The offering could happen as early as next week, the US broadcaster reported. The banks reportedly involved in the talks are Goldman Sachs, Morgan Stanley, Credit Suisse, Blackstone Stone Group and UBS, CNBC said. A BP spokeswoman said the company did have comment on reports about its financial market dealings. BP’s financial situation is under great scrutiny as it grapples with the fallout of the Macondo spill. The company July 16 agreed to put $20 billion over four years into an independently managed oil spill compensation fund and cancel its shareholder dividends this year. BP has also outlined plans to sell $10 billion of assets over the next 12 months and trim its capital spending in 2010, moves designed to strengthen its balance sheet. The company’s current gearing level is relatively low by industry standards and close to the bottom of its own target range of 20%-30%.

BP is expected to soon begin offering crude oil recovered from its leaking Macondo well offshore Louisiana in the Gulf of Mexico in a public tender, Gulf Coast crude oil trading sources said June 17. BP had earlier said it would sell the crude on the spot market. “If the tender does not attract any interest, then BP may just refine it at its Texas City refinery,” said one trader. “Without doubt, this crude is distressed and will go well below its value.” Uncertainties about the quality of the crude, given the inclusion of methanol and perhaps other elements in the mix, are not yet possible, said traders, who are awaiting more information from BP. Methanol is being used in recovery efforts to increase the crude’s pour point in response to the low temperature in the deepwater Gulf. Macondo has an API gravity of about 37 degrees. “With all the bad publicity, some companies may not even want to be seen buying this crude and this may force BP to just bring into its own Gulf Coast refinery and refine it,” added the trader. “With about 500,000 barrels now recovered this is going to be very difficult to hold for long.”

For the second time in less than a month, Standard & Poor’s Ratings Services lowered BP’s corporate credit rating a notch with a negative outlook on June 17, citing the increasing size of the estimates for oil leaking from the Macondo well and greater scrutiny by the company of the US Congress. S&P lowered BP’s credit ratings one level, from AA to A for long-term debt, and from A-1-plus to A-1, for short-term debt. The ratings agency said BP would remain on a negative credit watch. “The downgrade reflects our opinion of the challenges and uncertainties that BP continues to face in the aftermath of the explosion on the Deepwater Horizon rig in the Gulf of Mexico on April 20, 2010, and the subsea Macondo well blowout,” S&P credit analyst Simon Redmond said in a statement. “These challenges and uncertainties include the difficulties BP is experiencing in containing the spill as well as the ultimate extent of the pollution, the consequences for BP of ongoing official investigations, and the implications of these investigations for the magnitude and timing of further cash payments by BP. While BP’s commitment to put $20 billion in escrow to cover liability claims associated with the Macondo blowout would, in general, be supportive of the company’s credit quality, S&P said the $20 billion move is outweighed by the rising estimates of how much oil has spilled, and the fact the spill is continuing. The credit rating agency said it could not rule out further changes in BP’s credit rating because the rapidly changing situation in the Gulf is about to become complicated by hurricane season.

Government moves

The US Minerals Management Service may be stretched too thin as it works to enforce the Obama administration’s deepwater drilling moratorium, review shallow-water drilling permits and endure a massive reorganization, government investigators said June 17. MMS has been hard-pressed to enact the 120 recommendations for reform made by government inspectors over the last few years and is now faced with splitting into three separate bureaus and reviewing shallow-water drilling permits pulled in the wake of the Macondo spill. Those three forces combined could overwork an already overworked agency, said Mary Kendall, acting inspector general for the Interior Department, and Frank Rusco, Government Accountability Office analyst. Interior Secretary Ken Salazar has proposed splitting the oil-lease agency in three, a little more than a month after oil began pouring from the Macondo well. MMS officials expect to deliver to Salazar by end-Friday a report detailing its proposed overhaul, acting MMS Director Robert Abbey said June 17. The Macondo spill sharply focused public and congressional attention on the embattled agency, but Kendall and Rusco noted problems at the agency were well-documented before April 20 blowout. Additionally, reform may also be coming too quickly, as it will preempt a longer, six-month analysis being completed by the White House, said Rep. Jim Costa, the California Democrat chairing the panel.

The US Senate could vote as soon as the evening of June 17 on a bill that would increase an oil industry fee to 49 cents/barrel, more than six times its current level. The Oil Spill Liability Trust Fund fee would be increased as part of a $118 billion tax bill that Senate Democrats hope will pass that chamber. The House approved its version in May. The fee pays for the trust fund, which pays for clean-up costs and economic and natural resources damages incurred after a major offshore oil spill or leak. The fee currently stands at 8 cents/b. Only $1.6 billion is currently available in the fund. Democrats in both chambers of Congress have proposed increasing the fee as part of the tax bill, and it has edged up slowly from 32 cents/b to 34 cents/b in the House. The first Senate draft included a 41 cents/b fee, but that has risen to 49 cent/b. Money from the fee would go to pay for the trust fund, but congressional budget rules allow any increase in federal revenues to be counted as offsetting new spending. Democrats have increased the fee level to take advantage of the fee as an offset for spending on other programs included in the tax bill, including unemployment assistance.

US Senate Majority Leader Harry Reid June 17 said he planned to bring to a floor vote in July a bill that would create jobs, cut pollution and address the Macondo spill. But whatever the bill will include a price on carbon emissions will depend on “what is possible,” the Nevada Democrat said. “There are many strong passions and arguments about the best way to achieve these goals,” Reid told reporters after the meeting with other Senate Democrats. “I’m also focused on what is possible.” Reid said he will work with Democratic senators who have energy and climate bills and jurisdiction over the issue to “write a bill that sets reasonable goals with a reasonable time frame that will benefit our environment, our economy and our nation.” Reid said he believes proposals discussed at the meeting would create jobs “no matter what side of the spectrum you’re on — lots of carbon pricing, little or none.” The senator said he plans to schedule another meeting next week with senators to discuss a bill that will be capable of attracting the 60 votes needed to avoid a filibuster before Congress leaves for its month-long August recess. Reid said he expected the bill to address issues related to the Macondo spill. “We know whatever we decide to do, ultimately, we’re going to have to deal with the catastrophe in the Gulf,” he said. “With 60,000 barrels of oil gushing into the Gulf every day, we have to do what is right for now, not just the future.”