DISB
Government of the District of Columbia
Department of Insurance, Securities and Banking

Consumer Guide

FINANCIAL AND INSURNACE INFORMATION PROVIDED BY THE D.C. DEPARTMENT OF INSURANCE, SECURITIES AND BANKING
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Things to Know About Energy Investments

With energy demands and a desire for energy independence increasing globally, investments in traditional and alternative energy resources are being promoted more often and are becoming attractive to more investors. Some examples include: wind turbines, solar panels, biodiesel, ethanol, coal, oil, gas, hydrogen, wave, geothermal, oil sands, and liquefied natural gas. Many of these investments are highly risky and are usually not appropriate for all investors. It is not unusual for unscrupulous promoters to follow the headlines and take advantage of unsuspecting investors by engaging in fraudulent practices. Promoters sometimes prey on investors interested in socially responsible products by labeling them as "green energy" investment opportunities. The phrase "green energy" implies that the products are ecologically friendly when in fact the promoters may be operating a fraudulent shell company and not producing anything.

How are energy investment products offered?

- Commodities: The purchase of energy products today in order to make money from price changes in the future.
- Exchange Traded Funds (ETFs): Intended to mirror the performance of a particular energy segment or index.
- Private Placements: Energy investments are often sold through a private placement memorandum purchased through a subscription agreement.
- Crowdfunding: Energy investments soon may be made available to the general public through an online crowdfunding portal.
- Limited partnerships: Purchasing membership units in an energy investment partnership where the investors' liability is limited and the general partner makes all managerial decisions.
- General partnerships: Purchasing membership units in an energy investment partnership where the investors' liability is not limited and the investor may receive tax benefits from the investment.
- Joint Venture: An investment in a specific project or for a finite period of time sometimes involving fractional interests in energy leases.
- Stock in energy companies: Purchasing stock from a particular company that does business in the energy segment.
- Bonds or secured notes: Purchasing a debt instrument from a particular company that does business in the energy segment.

Why do investors need to be cautious?

- Energy investments are highly speculative and subject to the forces of market demand and competition. Be wary of optimistic, "too good to be true" offers because there is no way a managing partner can be certain how much energy will be produced, the time it will take to recover the energy resource, whether the costs associated with extraction/production will be greater than the anticipated profits, or whether demand for the energy resource will remain strong enough for investors to recoup their investments.
- While emergent technologies are making it more practical to produce or extract certain types of energy resources, the managing partner may have little to no actual experience with energy production/extraction or with using the emergent technologies.
- Private placement offerings are considered to be among the riskiest of investments because they are not subject to the same level of regulatory oversight as public securities offerings and are often housed in complex joint venture or general partnership arrangements.
- While the underlying project may be legitimate, any revenues realized can be negated by fees (such as high sales commissions paid to the promoters) or "expenses" skimmed off by the managing partner, who typically sets all the rules about who gets paid, how much, in what order and when.
- Because energy extraction/production has possible negative environmental consequences, investors need to understand the liabilities they may be assuming when investing in an energy joint venture or general partnership.
- The lack of proximity pipeline to transport production could result in commercial production with no ability to transport/sell (specific to oil/gas).
- Purchased units are often non-transferable and illiquid.
- Energy investments are also highly influenced by political forces at the local, state and federal levels, particularly with regard to tax policy, environmental regulation, and the regulation of the sale and transport of domestic energy production.

How to protect yourself:

- Before investing in an energy investment, ask questions about the risks and fees involved. Conduct your own independent research or seek the opinion of a financial professional who is registered with your local securities regulator. Never invest in something you don't fully understand.
- Do not agree to participate in a general partnership or joint venture if you have no specific experience, knowledge or education in the energy segment and would have to rely on others' expertise.
- Beware of sales techniques that include repeated phone calls, cold calls, or high-pressure sales pitches hyping the profitability of the deal or promising a sure thing.
- Do not be fooled by professional-looking websites boasting current productivity levels and profits, and featuring photos of energy production sites.
- Call DISB at 202-727-8000 and check on the investment opportunity, the salesperson and the promoter.
- As with every investment, it is important to review the complete prospectus. Remember also to check with DISB to see whether the salesperson or promoter is licensed. Investors in the energy sector should be cautious and invest no more than they are prepared to lose.

About DISB

The D.C. Department of Insurance, Securities and Banking, also known as DISB, has two missions: to fairly and efficiently regulate financial services in order to protect the people of the District of Columbia; and to attract and retain financial-services businesses to the District. Visit us online at disb.dc.gov.

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