Listening to the experts

Posted by Heading Out on July 19, 2005 - 9:27am

As we move through this period of grace before the tightening oil supply situation becomes more clearly evident to more people, there are increasing numbers of statistics appearing that seem to confuse the issue. For example there was the recent revision upward of the US demand growth last year by 213,000 bd. Then there are also some conflicting views on what China plans on doing, some of which discussion is given in our earlier posts of this past week. There are questions about the state of Russian production, and exactly how much oil is coming, and from where in the Middle East. In addition there is the conflict over the actual amount that the British part of the North Sea oil is declining, is it the 17% that has been noted as occurring monthly for the past quarter by *the Scotsman*, or is it the 5.6% that the latest UKOOA report would have it.

Some of these issues can be explained. For example the current drop in North Slope production of 6.5% for June was due to pipeline maintenance . The recent short term drops in production from the Gulf, including Cantarell in Mexico, are transient ones caused by the need to ensure the safety of the platforms and crews.

Some issues, such as the amount of demand destruction in the poorer countries of Asia and South America caused by current high prices cannot be estimated yet. And it is too early in the year to see how some issues that will have a significant impact will be resolved. The Chinese, for example, have not indicated any change in their plan to start building a Strategic Petroleum Reserve in August. And if they do this, it is bound to have some effect on markets.

Given this rising cacophony of voices and numbers it is instructive to revisit a site from last year. On the 12th August last year MyDD carried the story (from theStreet.com) and I quote:

> I just finished canvassing the Street to see what analysts are using for the price of oil for 2005, the integral element of their estimates. The average of the whole Street is $31 a barrel. Nobody is higher than $35; many are still below $30. Here are the prices I have as of this morning from the firms that have helped:
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> â€¢ Goldman Sachs: $35
> â€¢ Raymond James: $34
> â€¢ AG Edwards: $32
> â€¢ Merrill Lynch: $32
> â€¢ Lehman Brothers: $30
> â€¢ Smith Barney: $28
> â€¢ UBS: $28
> â€¢ CSFB: $27
> â€¢ Bear Stearns: $30

At the time the price of oil was $45. Makes you glad you follow investment advice, doesn't it. (And in some cases I must admit I do).

Well it made me curious and so I went and dug into those old boxes that academics drag from office to office over the decades, and I found some papers and magazines that provide some additional grist for the mill. For example, we were at one time much more dependent on natural gas than we are now, and then we started to run out of domestic supplies.

In 1977 in the month Jimmy Carter became President the shortage of natural gas combined with the harshest winter in decades led to a serious problem. At that time natural gas heated half the nations homes and 40% of its industry, for a total of 30% of the nations energy. As the Newsweek of the time (Feb 7, 1977) reported:

> Every school in Pennsylvania was closed, and 400,000 workers were laid off in Ohio alone. Nationwide more than 2 million were already out of work and the total mounted every day. Throughout the eastern half of the country thousand of factories were cut back to "plant protection" gas levels (only enough fuel to prevent pipes from freezing) and had to shut down. Eight states â€“ Pennsylvania, Ohio, Indiana, Minnesota, Tennessee, Florida, New York and New Jersey proclaimed states of emergency.

There was a large switch away from natural gas following that year, but we seem to be heading back along that same track again. (The magazine stories of the time are worth revisiting to see how unprepared the general public was for a crisis that energy experts had been warning about for several years). Hmm! And here I thought that "*The Oil Storm*" was overdramatic!

Note that this was before the major increases in oil prices. One of those occurred in July 1979, and the stories in Time of that week (July 9th) tell of the problem which may sound familiar.

> The (OPEC) cartel's 13 member nations are now pumping roughly 31 mbd of crude out of the ground each day, 2 mbd more than last year, but still 2 mbd less than nations want to buy in order to keep their factories humming. The shortage has set off a scramble that permits OPEC to charge almost any price its members wish: some U.S. officials fear that the cartel will ram through yet another 15% increase by year's end. The only way to head it off, say government leaders around the world (including OPEC leaders) is if for oil-importing nations to cut their consumption by 2 mbd."

The magazine shows pictures of gas lines in New York City, rotting cantaloupes in Yuma, Arizona rioters burning cars in Levittown, PA. and National Guard troops protecting gas deliveries in Florida.

To overcome these shortages, a number of predictions have been made over the years as to what needed to be done.

For example, a government panel on Energy Policy suggested that a program should be implemented that would change the makeup of the National Energy Supply as it was expected to double in the period from 1975 to 2000. This suggested that crude oil production would drop from 33% to 15% of the supply; 4% would come from synthetic crude produced from coal; 2% would come from oil produced from shale oil; natural gas, which made up 32% of the supply would be reduced in total volume and be cut to 12% of the supply; synthetic gas from coal would produce 4%; coal itself would increase production to meet 30% of the demand from 27%.

Hydroelectric power would double in quantity but remain at only 4% of total supply; nuclear power would more than double, and increase it's share to 24% of the total, while the new sources of solar (at 5%) and geothermal (at 1%) would start to become significant. (They would then go on to more than double output in the years to 2010).

Well I could go on, but as you can see there is some risk in listening to experts.

On an Update note, the Thunder Horse platform is now reported righted , and sealed and further weather proofing is continuing. It had not yet been connected to the undersea wells that it will tap.

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