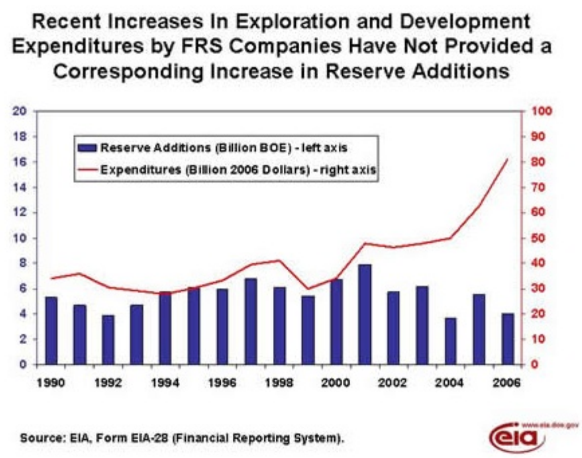
TWIP (This Week in Petroleum) 12-19

Posted by Nate Hagens on December 19, 2007 - 5:41pm
Topic: Supply/Production
Tags: doe, i miss robert, twip [list all tags]

Here is a link to the DOEs This Week In Petroleum. **US crude inventories fell 7.6 million barrels**. Consensus was for a drop of 1.5 million barrels. **Total gasoline inventories rose 3 million barrels**, much higher than an 800,000 expected rise. Implied gasoline demand fell .7% relative to the previous week. Crude oil, after trading as low as $89.70 for Feb delivery, rallied $1.50 to close at $91.70. The text, and some graphics from Lehman Brothers research report are below the fold:



Released on December 19, 2007
(Next Release on December 27, 2007)

Waiting for the Goods to Arrive
The internet has made holiday shopping much more convenient. From the comfort of their homes, consumers can do lots of research, make their decisions, put up the money, and then simply wait for the goods to arrive on their doorstep. But anxiety can increase as the holiday draws closer and consumers begin to wonder if the goods will arrive on time. Oil companies are also out shopping. They do a lot of research, make decisions, and put up billions of dollars in the search for oil reserves that they can then produce and sell. While consumers can be fairly certain that their goods will arrive, even if a few days late, oil companies are much less certain about being able to turn their exploration and development investments into producing reserves.

Much has been made about recent increases in oil company profits. Profits have increased sharply in the past five years, greatly increasing the amount of cash that companies have available for investments. At first, companies were hesitant to invest. The projects they invest in are multi-year, multi-billion dollar endeavors and decisions are not made quickly. If companies feel that increased profits may be temporary, they may be wary about increasing investments. But starting in 2005 and continuing through 2006, companies significantly increased spending. As the figure below shows, expenditures to find and develop oil and natural gas reserves in 2006 by the major U.S. oil and gas producers that report to EIA's Financial Reporting System (FRS) were more than 60 percent higher than in 2004, even after adjusting for general price inflation. (See Performance Profiles of Major Energy Producers 2006 for more details on expenditures and reserve additions by companies that report to the FRS.)

Recent Increases In Exploration and Development Expenditures by FRS Companies Have Not Provided a Corresponding Increase in Reserve Additions

However, to date, the big increase in spending has not resulted in significant increases in reserves. In fact, reserve additions (measured in barrels of oil equivalent) for the FRS companies in 2006 exceeded only two of the previous 17 years. There may be several reasons for the delayed response of reserve additions. It sometimes takes years from the start of exploration before oil is discovered and then designated as "proved" reserves. Also, higher costs for raw materials and drilling rigs mean that some of the additional spending went into just maintaining what companies were already doing. In the next few months, oil companies will report their 2007 reserve additions and we may start to see some results of the higher expenditures. Oil markets are anxiously waiting for the goods to arrive.

Residential Heating Oil Prices Set New Record High
Residential heating oil prices resumed their upward course and reached a new record high during the period ending December 17, 2007. The average residential heating oil price increased by 3.5 cents last week to reach 329.4 cents per gallon, an increase of 85.0 cents from this time last year. Wholesale heating oil prices jumped up by 10.3 cents, reaching 268.0 cents per gallon, which was an increase of 89.0 cents compared to the same period last year.

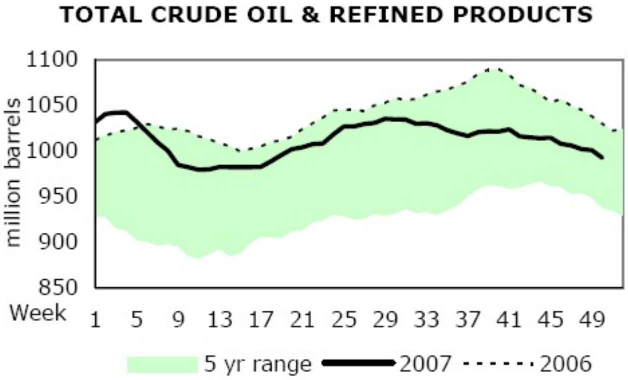
The average residential propane price increased by another 1.6 cents to reach 248.7 cents per gallon, notching an eleventh consecutive record high. This was a gain of 50.9 cents compared to the 197.8 cents per gallon average for this same time last year. Wholesale propane prices rose by 3.1 cents per gallon, from 158.0 to 161.1 cents per gallon. This was an increase of 54.6 cents from the December 11, 2006 price of 106.5 cents per gallon.

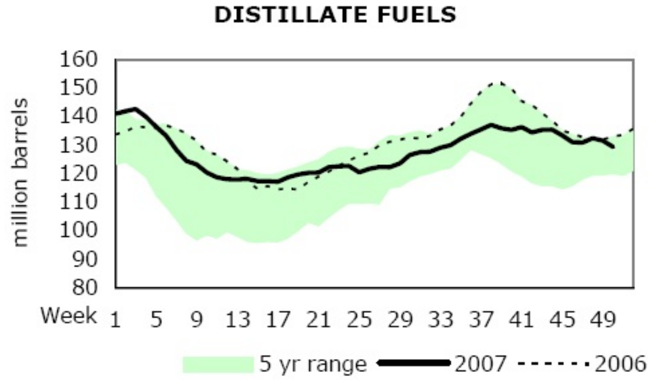
Average Retail Gasoline Price Drops Below $3 a Gallon
The U.S. average retail price for regular gasoline dropped below $3.00 a gallon for the first time since October 29. Following the fifth consecutive week of reduced prices, the average totaled 299.8 cents per gallon as of December 17, 2007, 0.2 cent lower than last week but 67.8 cents above a year ago. All regional prices decreased except for the Midwest where prices advanced 4.8 cents to 294.3 cents per gallon. The East Coast was lower by 1.4 cents to 301.7 cents per gallon. The Gulf Coast weakened 2.6 cents to 285.0 cents per gallon, the lowest regional price. The largest drop occurred in the Rocky Mountain region where a 4.2-cent reduction sent the price to 296.6 cents per gallon. The West Coast continued as the highest regional price, dwindling 3.9 cents to 320.5 cents per gallon. The average price for regular grade in California tumbled to 328.5 cents per gallon, 4.4 cents less than last week but 72.4 cents per gallon more than last year.

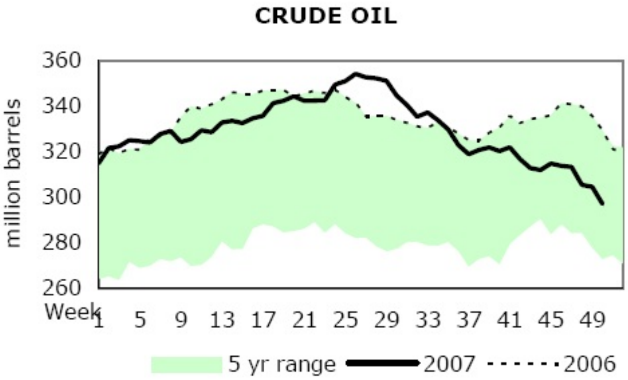
The retail diesel fuel price declined for the third straight week, falling 1.6 cents to 330.9 cents per gallon, but still 70.3 cents higher than last year. Regional prices were down across the country with the East Coast decreasing 1.3 cents to 335.9 cents per gallon. The Midwest logged the smallest decline, a half cent, to dip to 327.1 cents per gallon. The Gulf Coast price was reduced by 2 cents to total 324.5 cents per gallon. The Rocky Mountain region price plunged 7.8 cents to 331.9 cents per gallon. The West Coast sunk 2.5 cents to amount to 341.5 cents per gallon. California prices slipped 2.9 cents to fall to 342.6 cents per gallon.

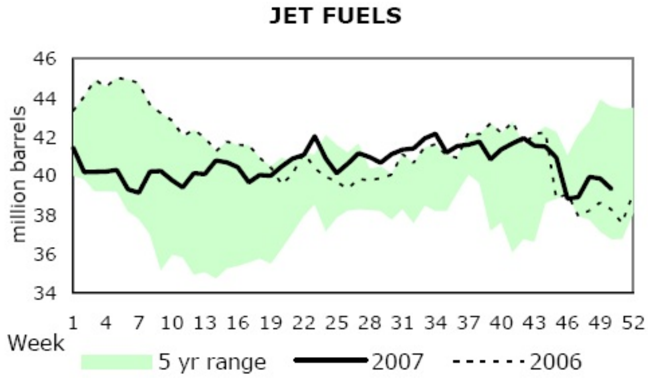
Propane Inventories Sharply Lower
The cold temperatures left behind following the winter storm that swept through the Midwest and Northeast last week continued to impact propane inventories that showed primary supplies of this fuel dropping sharply by over 1.6 million barrels. As of December 14, 2007, propane inventories stood at an estimated 57.9 million barrels, a level that continues near the lower boundary of the average range for this time of year. The Midwest region posted the largest weekly decline last week that measured 0.7 million barrels, followed by the Gulf Coast with a drop of 0.5 million barrels. During this same time, East Coast inventories fell by 0.3 million barrels while inventories in the combined Rocky Mountain/West Coast region moved down by 0.2 million barrels. Propylene non-fuel use inventories also moved lower by more than 0.2 million barrels last week, but accounted for a higher 2.9 percent of total propane/propylene inventories compared with 2.4 percent from the prior week.

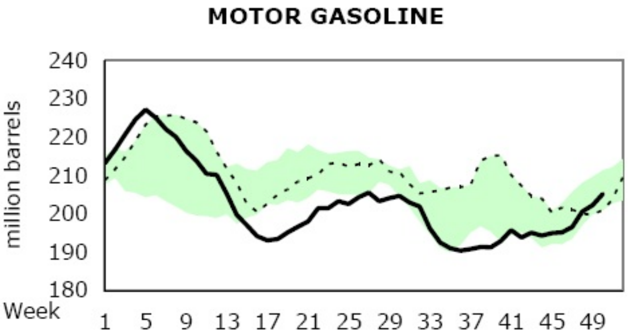
In pictures, from Lehman Brothers:

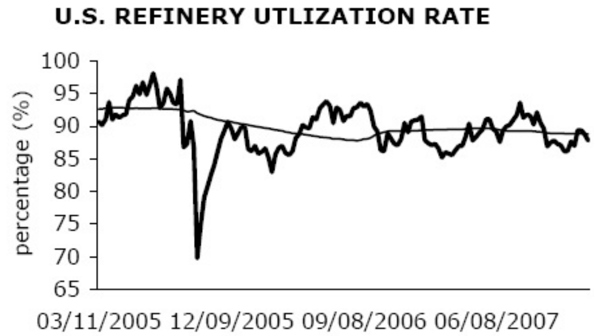




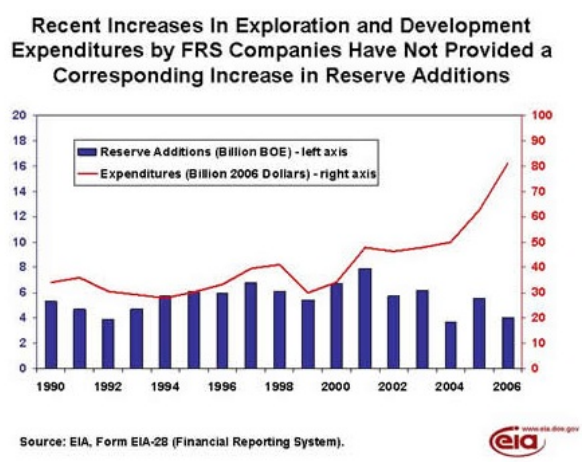








Revisiting this graphic again,



are there any other potential explanations why costs on finding and developing reserves are escalating but resulting in fewer reserve finds in the headline graphic? I suggested some here (points #6 and #7). At what point do we reach energy break even on the marginal barrel in USA? 25 years? 10 years? 2 years? This chart is almost a year old already....