The Oil Drum
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

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Posted by Gail the Actuary on March 26, 2009 - 9:07am
Topic: Miscellaneous

Oil Production Cutbacks Threaten Major Price Spike, Study Says

> The slowdown in investment in oil and gas production could lop off nearly 8 million barrels a day of future oil supply growth, setting the stage for another big crude price spike in the years to come, according to a new study.
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> The global credit crisis and falling oil prices have squeezed oil companies' finances and forced many of them to cut capital spending and postpone projects. That could have big implications for supply when the global recession ends and demand for energy recovers, the report by Cambridge Energy Research Associates says.

The return of the middlemen (Kurt Cobb)

> But now as the globalized economy withers--never to return in its present form in my view--we are bereft of that dense network of local shopowners, brokers of all kinds of goods, hometown bankers, small equipment repairmen who can restore broken goods to useful work and so many others whom we will be needing in the future that is now unfolding.

Santa Rosa firefighters, police give up raises to avoid layoffs

> Leaders of cash-strapped Santa Rosa on Tuesday gave police officers and firefighters a standing ovation after their unions agreed to forgo pay raises totaling more than $4 million over the next two years.

Solar Power: Eco-Friendly or Environmental Blight?

> California wants to run on sunshine. The state is forcing utility companies to provide 20% of their output by way of solar power and other forms of renewable energy by 2010. Last November, Governor Arnold Schwarzenegger said he wanted the portion to be one-third by 2020. Now the feds are bringing the money to help fund all this sunny

energy, with the Obama Administration's stimulus package promising to pay for 30% of solar-power projects that begin by the end of 2010.

But could this politically backed, popularly supported solar surge spiral into eco-disaster? That's what some say is happening to the Carrisa Plains, a sparsely populated swath of arid, sunny and relatively cheap land in eastern San Luis Obispo County, where three of the world's largest solar plants ever proposed are under review. Together, the Topaz Solar Farm, California Valley Solar Ranch (both photovoltaic projects) and the Carrizo Energy Solar Farm (a solar thermal operation) would provide energy to nearly 100,000 Golden State homes, but only by covering roughly 16 sq. mi. (41 sq km) of the ecologically sensitive plains with solar panels and industrial development. All three plants have deals with Pacific gas & Electric (PG&E) (which declined to comment for this story), and all want to start construction by the 2010 deadline for federal funds. And more solar-plant proposals are on the way, in large part because transmission lines with available capacity already run through the region.

When Are We Going To Start Talking About The Environmental Cost Of Solar?

Yet nobody seems to ask the question, Where are we going to get 10,000 or 20,000 square miles of desert to do all this? The assumption – much like that of the early American pioneers – is that there are vast tracts of land somewhere out there in the West waiting to be put to our use. Has anybody ever heard the term “environmental impact?” Is it even conceivable that you can mark off this much land on the map and not come across some endangered species?

Here’s another consideration that you never hear about. One of the biggest problems with solar mirrors and photovoltaic panels is they get covered with dust and grim and lose much of their effectiveness. They have to be washed off frequently. Where, in the middle of the desert, do you find enough water to wash down 10,000 square miles of solar collectors at least once a month?

The Secretary of Synthetic Biology (Dave Cohen)

The multiple pathways shown in Figure 2 illustrate what Chu calls a “portfolio” approach to creating 4th generation biofuels. I prefer to describe it as a “scattershot” approach in which you randomly fire a lot of bullets in some general direction and hope you hit something.

In what general direction does Chu want to shoot his bullets? Chu wants nothing less than to alter the Earth’s primary productivity, its energy flows, to achieve greater efficiency in the conversion of sunlight to chemical energy than Nature has after 3.5 billion years of evolution. . .

This suggests that tampering with plant productivity may be a grave mistake or impossible. I do grant the possibility that constraints on primary production were the result of an “accident” (mere chance) in the way life evolved on Earth. In this case plant engineering might well be possible. How are we to assess the likelihood of either position? We can't. We do know that 4th generation biofuels will require the creation of artificial ecosystems, i.e. systems which have been human-designed and -engineered for specific purposes.

[Financier sees oil shock from credit crunch]

> The global financial crisis and collapse in the oil market have stalled vital investment in oil exploration and production and are likely soon to lead to a sharp spike in prices, an energy consultant and financier says.
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> Matt Simmons, founder of Houston-based investment bank Simmons & Co, argues the underlying rate of decline of the world's aging oilfields is as much as 20 percent a year and only high levels of investment can reduce that to single digits.
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> With credit tight and oil prices almost $100 a barrel below their highs last year, oil companies are unable to sustain previous levels of spending and the result is falling production, he said in an interview on Thursday.
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> "We are three, six, maybe nine months away from a price shock. We are not talking about three to five years away -- it will be much sooner," Simmons told Reuters in London.
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> "These prices now are dangerously low. The lower prices fall, the less oil will be produced and the greater the chance of an oil spike," he said.

[StatoilHydro Strikes Oil Close to Vigdis in North Sea]

> StatoilHydro has struck oil during the drilling of an exploration well and a sidetrack north of the Vigdis East field in the North Sea.
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> The proven recoverable resources are estimated at about 25 million barrels of oil. The well confirmed the existence of a 280-meter oil column in rocks with good reservoir properties.
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> "Our exploration activities close to fields on stream are successful and the discovery again confirms that there is still a great potential in this part of the North Sea," said Tom Dreyer, StatoilHydro's vice president, infrastructure-led exploration, North Sea.

[BHP Billiton Starts Up Production at Shenzi Field in Deepwater GOM]

> BHP Billiton announced that first oil and natural gas production has commenced from the Shenzi development in the deepwater Gulf of Mexico. The tension leg platform (TLP) has a nominal capacity of 100,000 barrels of oil per day and 50 million cubic feet per day of natural gas, on a 100 percent basis.

The Shenzi facility is located approximately 120 miles (195 kilometers) off the Louisiana coastline and is installed in approximately 4,300 feet (1,300 meters) of water on Green Canyon Block 653, making it the second deepest TLP in the world.

Brazil considering OPEC's renewed invitation

Brazil's President Luiz Lula da Silva, apparently reversing earlier decisions, said his government is again considering an invitation to join the Organization of Petroleum Exporting Countries.

"Very, very soon Brazil is going to participate in OPEC," said the Brazilian president, according to Argentina's Empresas News. If correct, the statement would reverse earlier remarks by Lula, who last year said he preferred Brazil to export refined products, not crude.

The Brazilian president's remarks follow a Mar. 23 statement by Mines and Energy Minister Edison Lobao, who said the country was officially invited to join OPEC last week, but that it should enter the organization only when it effectively becomes an oil exporter.

Trade is Falling Faster in 2009 Than in 1930

By way of alarming comparison, this six-month drop is a bit faster than the six-month fall at the beginning of the Depression, when trade fell from $920 million in October '29 to $640 million by April of 1930: i.e., 30.4 percent. In May, the Congress added the Smoot-Hawley Act and foreign tariff retaliation to the effects of deflation and falling demand. Trade totals then fell by another 72 percent over the next three years, bottoming out at $184 million in February 1933.

Your Questions on the Economy

The White House is open for questions.

We invite you to participate in our community-moderated online town hall. Submit your own question about the economy and vote on submissions from others. We also encourage you to include a link to a video of yourself asking your question (ideally 30 seconds or less), but text submissions are all you need. Come back on Thursday to watch the President answer some of the most popular submissions live at WhiteHouse.gov.

UPDATE: The online town hall will be at 11:30 AM Eastern, the voting will close at 9:30 AM.
Pick a topic:
Education

Home Ownership
Health Care Reform
Veterans
Small Business
Auto Industry
Retirement Security
Green Jobs and Energy
Financial Stability
Jobs
Budget

[$60 oil within reach, officials say]

> Production cuts from the OPEC oil cartel stabilized oil prices and put $60-per-barrel oil within reach despite falling demand, the Algerian oil minister said.
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> Production cuts of 2.2 million barrels today enacted in January by the Organization of Petroleum Exporting Countries have stabilized oil prices in the world market. Prices hovered at around $45 since late last year but have spiked more than $50 in recent trading.
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> Algerian Oil Minister Chakib Khelil said that despite an estimated 1.1 million-barrel-per-day drop in demand, oil prices could reach $60 by the end of 2009, the Platts news service reports.

[House passes wilderness bill]

> Congress today set aside more than 2 million acres in nine states as protected wilderness; from California's Sierra Nevada mountains to the Jefferson National Forest in Virginia.
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> The legislation is on its way to President Barack Obama for his likely signature. . .
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> Representative Doc Hastings and other Republicans complained that the measure would lock up millions of acres of land that could be explored for energy and used for other development.
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> "Our nation can't afford to shut down the creation of jobs for jobless Americans, and we can't afford to become even more dependent on foreign sources of energy," Hastings said.
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> The bill "even locks up federal lands from renewable energy production, including wind and solar," he said.

[China eyes foreign shopping spree]

China will encourage its energy companies to make more forays abroad to ensure the country's energy security, an even more important strategy than exploration at home, a senior energy official said today. . .

Liu also said China will offer more tax and other policy incentives to oil and gas companies to explore abroad.

He did not elaborate, but state media have said low-interest loans and capital injections could go to oil giants China National Petroleum Corporation (CNPC), Sinopec and China National Offshore Oil Corporation (CNOOC), that aim to expand overseas as the global recession lowers the share prices of possible targets.

[EnCana files for oil sands expansion]

Calgary-based EnCana and US supermajor ConocoPhillips are asking regulators to approve a 120,000 barrel per day expansion of the Christina Lake oil sands project, according to documents filed with Alberta Environment.

Carol Howes, a spokeswoman for EnCana said no capital estimate has been given for the expansion project and filing for regulatory approval does not mean construction will soon begin.

"This just confirms the scope of the project," she said. "This is just setting the stage for the potential expansions, subject to prices and capital expenditure (decisions)."

[Colorado approves new oil and gas rules]

The Colorado Legislature has given final approval to new regulations for oil and gas drilling, despite dire warnings from opponents that the rules will hobble an ailing industry and eliminate jobs amid a deep recession.

Backers say the new rules are similar to ones already in effect elsewhere and will bring long-overdue protections to the public, the environment and wildlife. . .

The rules give more weight to public health and safety, environmental protection and wildlife habitat and migration when state regulators consider applications for new oil and gas wells.

[Obama Administration Revives Tax Battle With Oil Industry]

The Obama administration's push to raise taxes on the oil industry is reigniting a battle the industry fought and won last year.

Under pressure to narrow projected deficits, President Barack Obama's 2010 budget proposal calls for raising more than $31 billion over the next decade by eliminating the oil and gas industry's eligibility for various tax breaks.

The plan would slap companies with a new excise tax on production in the Gulf of Mexico worth $5.3 billion between 2010 and 2019, and repeal the industry's eligibility for a manufacturing tax credit worth $13.3 billion in that period. The industry says the final cost of Mr. Obama's proposals on petroleum production could top $400 billion, once his plan to put a price on greenhouse-gas emissions is factored in.

US Interior Secretary Open to Scaling Back Planned Oil Tax Hikes

U.S. Interior Secretary Ken Salazar expressed flexibility on scaling back an Obama administration proposal for $31.5 billion in new revenue from the oil and gas industry.

"We're willing to listen," Salazar said in an interview on Wednesday with Dow Jones Newswires. "If it is going to have a disproportionate impact on a mom-and-pop kind of operation I do think that's something that should be taken into consideration."

Small, independent producers have warned about two tax breaks in particular that the Obama administration has proposed repealing: one that allows firms to write-off intangible drilling costs such as renting rigs, and another allows companies to take the depleting value of oil and gas reserves off their tax bills.

Repealing both of these, says head of the Stripper Well Association Dewey Bartlett, Jr., cuts so drastically into the slim profit margins his members make, that the impact will be immediate. He says not only will the small firms not drill more wells, but if any well parts break, they're a lot less likely to be replaced.

Water Worries Shape Local Energy Decisions

Advocates for alternative energy are discovering that water issues may prove to be as important a selling point for the industry as reducing carbon-dioxide emissions.

"The more we wean energy companies off consumptive use of water, the better for everyone," said Craig Cox, executive director of the Interwest Energy Alliance, a Colorado trade group that represents power-project developers.

The electric-power industry accounts for nearly half of all water withdrawals in the U.S., with agricultural irrigation coming in a distant second at about 35%. Even though most of the water used by the power sector eventually is returned to waterways or the ground, 2% to 3% is lost through evaporation, amounting to 1.6 trillion to 1.7 trillion gallons a year that might otherwise enhance fisheries or recharge aquifers, according to a Department of Energy study.

The study concluded that a megawatt hour of electricity produced by a wind turbine can save 200 to 600 gallons of water compared with the amount required by a modern gas-fired power plant to make that same amount. . .

Nuclear plants face particular scrutiny, since they require more water than any other form of steam generation.

It's the Ecology, Stupid

The most obvious fact about ecological economics is that, well, ecology comes before economics.

"For example," says Joshua Farley, an economist at the University of Vermont, "without healthy ecosystems to regulate climate and rainfall and provide habitat for pollinators, agriculture would collapse." Which makes it tough to sell cars.

Put another way, "we need economic production to survive, but we also need healthy ecosystems and the service they provide," he says. No bees, no food, no trip to the grocery store.

This hierarchy of logic might seem self-evident, but to ecological economists — like Farley and graduate student Rachael Beddoe and their colleagues at UVM's Gund Institute for Ecological Economics — the mainstream of economic thought seems to have the formula backward. Get the economy growing again, the conventional argument goes, then we'll have the time and resources to take care of the environment; let the market set a price tag on conservation and the ecosystems will take care of themselves.