



Top 10 Energy Stories of 2009

Posted by [Robert Rapier](#) on December 26, 2009 - 10:35am

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Here are my choices for the Top 10 energy related stories of 2009. Previously I listed how I voted in [Platt's Top 10 poll](#), but my list is a bit different from theirs. I have a couple of stories here that they didn't list, and I combined some topics. And don't get too hung up on the relative rankings. You can make arguments that some stories should be higher than others, but I gave less consideration of whether 6 should be ahead of 7 (for example) than just making sure the important stories were listed.

1. Volatility in the oil markets

My top choice for this year is the same as [my top choice from last year](#). While not as dramatic as last year's action when oil prices ran from \$100 to \$147 and then collapsed back to \$30, oil prices still more than doubled from where they began 2009. That happened without the benefit of an economic recovery, so I continue to wonder how long it will take to come out of recession when oil prices are at recession-inducing levels. Further, coming out of recession will spur demand, which will keep upward pressure on oil prices. That's why I say we may be in [The Long Recession](#).

2. The year of natural gas

This could have easily been my top story, because there were so many natural gas-related stories this year. There were stories of [shale gas in such abundance](#) that it would make peak oil irrelevant, stories of [shale gas skeptics](#), and stories of [big companies making major investments](#) into converting their fleets to natural gas.

Whether the abundance ultimately pans out, the appearance of abundance is certainly helping to keep a lid on natural gas prices. By failing to keep up with rising oil prices, an unprecedented oil price/natural gas price ratio developed. If you look at [prices on the NYMEX](#) in the years ahead, the markets are anticipating that this ratio will continue to be high. And as I write this, you can pick up a natural gas contract in 2019 for under \$5/MMBtu.

3. U.S. demand for oil continues to decline

As crude oil prices skyrocketed in 2008, demand for crude oil and petroleum products fell from 20.7 million barrels per day in 2007 to 19.5 million bpd in 2008 (Source: [EIA](#)). Through September 2009, year-to-date demand is averaging 18.6 million bpd - the lowest level since 1997. Globally, demand was on a downward trend as well, but at a less dramatic pace partially due to demand growth in both China and India.

4. Shifting fortunes for refiners

The [Jamnagar Refinery Complex](#) in India became the biggest in the world, [China brought several new refineries online](#), and [several U.S. refiners shut down facilities](#). This is a trend that I expect to continue as refining moves closer to the source of the crude oil and to cheap labor. This does not bode well for a U.S. refining industry with a [capacity to refine 17.7 million](#) barrels per day when [total North American production](#) is only 10.5 million bpd (crude plus condensate).

5. China

China was everywhere in 2009. They were making deals to [develop oil fields in Iraq](#), [signing contracts with Hugo Chavez](#), and they [got into a bidding war](#) with ExxonMobil in Ghana. My own opinion is that China will be the single-biggest driver of oil prices over at least the next 5-10 years.

6. U.S. oil companies losing access to reserves

As China increases their global presence in the oil markets, one casualty has been U.S. access to reserves. [Shut out of Iraq](#) during the recent oil field auctions there, U.S. oil companies continue to lose ground against the major national oil companies. But no worries. Many of my friends e-mailed to tell me that the [Bakken has enough crude to fuel the U.S. for the next 41 years...](#)

7. EU slaps tariffs on U.S. biodiesel

With the aid of generous government subsidies, U.S. biodiesel producers had been able to put their product into the EU for cheaper than local producers could make it. In a big blow to U.S. biodiesel producers, the EU put the brakes on this practice [by imposing five-year tariffs on U.S. biodiesel](#).

8. Big Oil buys Big Ethanol

I find it amusing when people suggest that the ethanol industry is a threat to the oil industry. I don't think those people appreciate the difference in the scale of the two industries.

As I have argued many times before, the oil industry could easily buy up all of the assets of ethanol producers if they thought the business outlook for ethanol was good. It would make sense that the first to take an interest would be the pure refiners, because they are the ones with the most to lose from ethanol mandates. They already have to buy their feedstock (oil), so if they make ethanol they just buy a different feedstock, corn, and they get to sell a mandated product.

In February, [Valero became the first](#) major refiner to buy up assets of an ethanol company; bankrupt ethanol producer Verasun. Following the Valero purchase, Sunoco picked up the assets of another bankrupt ethanol company. If ExxonMobil ever decides to get involved, they could buy out the entire industry.

9. The climate wars heat up

There were several big climate-related stories in the news this year, so I decided to lump them all into a single category. First was the [EPA decision to declare CO2 a pollutant](#) that endangers public health, opening the door for regulation of CO2 for the first time in the U.S.

Then came [Climategate](#), which gave the skeptics even more reason to be skeptical. A number of people have suggested to me that this story will just fade away, but I don't think so. This is one

that the skeptics can rally around for years to come. The number of Americans who believe that humans are causing climate change [was already on the decline](#), and the injection of Climategate into the issue will make it that much harder to get any meaningful legislation passed.

Closing out the year was the [United Nations Climate Change Conference in Copenhagen](#). All I can say is that I expected a circus, and we got a circus. It just goes to show the difficulty of getting countries to agree on issues when the stakes are high and the issues complex. Just wait until they try to get together to figure out a plan for peak oil mitigation.

10. Exxon buys XTO for \$41 billion

In a move that signaled ExxonMobil's expectation that the future for shale gas is promising, [XOM shelled out \\$41 billion](#) for shale gas specialist XTO. The deal means XOM is picking up XTO's proved reserves for around \$3 per thousand cubic feet, which is less than half of what [ConocoPhillips paid for the reserves of Burlington Resources](#) in 2005.

Honorable Mention

There were a number of stories that I considered putting in my Top 10, and some of these stories will likely end up on other Top 10 lists. A few of the stories that almost made the final cut:

[The IEA puts a date on peak oil production](#)

The statement they made was that barring any major new discoveries *"the output of conventional oil will peak in 2020 if oil demand grows on a business-as-usual basis."*

[AltaRock Energy Shuts Down](#)

Turns out that deep geothermal, which the Obama administration had hoped "could be quickly tapped as a clean and almost limitless energy source" - triggers earthquakes. Who knew? I thought these were interesting comments from the story: *"Some of these startup companies got out in front and convinced some venture capitalists that they were very close to commercial deployment"* and *"What we've discovered is that it's harder to make those improvements than some people believed."* I am still waiting to see a bonafide success story from some of these VCs.

[The biggest energy bill in history was passed](#)

In total, \$80 billion in the stimulus bill earmarked for energy was a big story, but I don't know how much of that money was actually utilized.

[The Pickens Plan derails](#)

[The website is still there](#), but the hype of 2008 turned into a big disappointment in 2009 after oil prices failed to remain high enough to make the project economical. Pickens lost about 2/3rds of his net worth as oil prices unwound, he took a beating in the press, and he announced in July that we would probably abandon the plan.

So what did I miss? And what are early predictions for 2010's top stories? I think China's moves are going to continue to make waves, there will be more delays (and excuses) from those attempting to produce fuel from algae and cellulose, and there will be little relief from oil prices.



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