Drumbeat: January 15, 2010

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Saudi Arabia and the oil bank

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/moneymorning.com/2010/01/15/us-oil-prices-to-rise/">Will China Supercede Saudi Arabia as the Key to U.S. Oil Prices?

> I bought a Toyota Prius last Saturday.
>
> The signs are everywhere that oil is headed for stratospheric highs - $200, $250 or even $300 a barrel. Some of these signs are just plain obvious. But even the subtle indicators are telling us that some very expensive energy costs headed our way.

Russia re-routes Belarus gas

> An unresolved row over Russian oil supplies to Belarus escalated again with Moscow reducing flows to Belarussian refineries, traders said today, in a move likely to revive fears of supply disruptions to Europe.

Analysis: 2010 Land Rig Market Outlook

> With 2009 in the books, we are providing thoughts and forecasts for the land rig market

in the year ahead. This is the sixth and final installment in a series of articles that review the 2009 and preview the 2010 jackup, floater and land rig markets.

[Saudi Aramco issues first selling price for Yanbu oil]

SINGAPORE/CAIRO: Top oil exporter Saudi Arabia has issued its first selling price for crude sales from its Red Sea port of Yanbu, oil trading sources said yesterday.

Saudi oil sales from Yanbu were linked to plans by the operator of the Suez-Mediterranean twin pipelines to reverse the direction of one of the lines, one of the sources said.

[Venezuela Expects $8.3 Billion Field Investment, Universal Says]

(Bloomberg) -- Petroleos de Venezuela SA, Venezuela's state oil company, said it expects bids today totaling $8.3 billion to develop the Mariscal Sucre offshore natural-gas project, daily El Universal reported.

The company known as PDVSA seeks partners to take stakes of as much as 40 percent in the project, Eulogio del Pino, vice president for exploration and production, told the Caracas-based newspaper.

[Forget About Shale; Wash Plays Are Where It's At]

In Chesapeake's second-quarter 2009 operational update, the company identified its Colony Granite Wash and Texas Panhandle Granite Wash plays as "the two highest rate-of-return plays in the company." In the third-quarter report, the company estimated the Colony's internal rate of return at 141%, based on selling the natural gas at $7 and the oil at $70.

[Kashagan Group Should Cut Costs By $3B - KazMunaiGas]

Kazakh state oil and gas company KazMunaiGas said Friday it has proposed that the consortium developing Kazakhstan's largest oil field Kashagan, in which it is involved, cuts costs by about $3 billion in 2010.

[US presses Pakistan to back away from gas deal with Iran]

The United States has told Pakistan that it would help the country secure liquefied natural gas supplies if it abandons a planned gas deal with Iran, United Press International reported on Thursday.

President: Kyrgyzstan will get energy independence

> Kyrgyzstan will get energy independence in the nearest future, Kurmanbek Bakiev President of Kyrgyzstan said Friday at a session of the Chui regional administration.
>
> Increasing volume of water in Toktogul water reservoir and launch of Kambarata-2 hydro-power plant will, in president's view, contribute to the process. "In the next one-two years the republic will be able to export electricity to its neighbors," Bakiev said.

The Philippines: Shell threatens to shut down Batangas refinery

> Pilipinas Shell Petroleum Corp. warned that the Bureau of Customs' plan to seize its raw materials and product imports will force it to shut down its Batangas refinery, leading to a fuel shortage.
>
> Citing Section 1508 of the Tariff and Customs Code, the Customs said it is authorized to seize all shipments of Shell arriving in February 2010 to May 2010 amounting to P43 billion to answer for the alleged deficiency in tax assessments covering its importation of Catalytic Cracked Gasoline (CCG) and Light Catalytic Cracked Gasoline (LCCG) from 2004 to 2009.

'Terminated' Reactor Projects Revived?

> A nuclear reactor project of the federally-owned Tennessee Valley Authority — declared officially dead since 2006 — have been promoted from "terminated" status to "deferred" by the Nuclear Regulatory Commission.
>
> Of the more than 100 reactor construction projects abandoned during the 1980s and 1990s, this is the first to take such a step, according to the regulatory agency, which announced the change on Thursday.

Sharon Astyk: Reconsidering Cities

> I think it is important also to distinguish between several kinds of cities. Just as I've written before that there are suburbs and suburbs, there are cities and cities. There are cities I think have little or no future in the face of climate change and energy depletion, and ones I think have quite a bright future. How do you know which kind of city yours is? Well, there are a few questions to ask yourself:
>
> 1. Was this a major city before 1900? This is an important question if you are interested in your city's future. As a general rule, the best way to evaluate a city's long term future in the face of depletion and the ability to produce less carbon is to ask "Back when we

used less energy, did people want to live here? If so, why? If not, why not?" If, for example, your city is a major port city, or connected by waterway to a major port city, your city probably has a future. The age of water transport is hardly over – it is just beginning again, and ports will be needed. If your city was a mill city with lots of hydropower – that's another good sign. Or a major rail hub – we know that rail is much more efficient than private cars. On the other hand, if not very many people lived there until air conditioning or until we stole water from somewhere else, that might not be so good.

2. What are the best projections for its future in climate change? The exception to the rule that you should use the past to predict the future is climate change. If your city is expected to be underwater and subject to increasingly violent storm surges, you might not want to stay – even if you imagine you won't be alive for the worst consequences, you might consider asking yourself "When I'm 70, will I want to evacuate every hurricane season?" Or if increasing heatwaves and drought are the projection, you should honestly ask whether you are prepared to deal with them. Cities with no good reliable supply of water will probably do very badly indeed.

U.S. Official Says Talks on Emissions Show Promise

Todd Stern, the chief American climate change negotiator, said Thursday that the flawed and incomplete agreement reached last month in Copenhagen could provide significant benefits if countries followed through on its provisions.

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IEA sees world oil use in 2010 highest since 2007

LONDON (Reuters) - Global oil demand this year will reach the highest level since 2007, with rising consumption led by faster growth in emerging economies in Asia, the International Energy Agency said on Friday.

The Paris-based adviser to 28 industrialised economies trimmed by 20,000 barrels per day (bpd) its expectations for the rise in global oil demand this year. It now sees demand increasing by 1.4 million barrels per day in 2010.

Outright demand will be 86.3 million bpd, still lower than the 86.5 million bpd used in 2007, but 10,000 bpd higher than previously forecast. Consumption has fallen for the last two years.

[IEA Cuts Non-OPEC Oil Supply Forecast on Azerbaijan]

(Bloomberg) -- The International Energy Agency cut its forecast for oil supplies from outside the Organization of Oil Exporting Countries this year because of lower-than-expected production in Azerbaijan.

Non-OPEC producers, accounting for about 60 percent of the global total, will provide 51.5 million barrels a day in 2010, or 150,000 barrels a day less than previously estimated, the Paris-based adviser to 28 nations said in its monthly report today. Supplies from outside OPEC will climb by 200,000 barrels a day next near compared with 2009. Production from Azerbaijan's Azeri-Chirag-Guneshli field was cut by a gas leak in 2008.

"Azerbaijan is the entire story in terms of non-OPEC changes," David Fyfe, head of the IEA's oil industry and markets unit, said by phone. "We still see Azeri production rising this year, but not as sharply as before as facilities damaged in 2008 may not get back to capacity before the incident."

[OPEC Compliance With Cuts Fell to 58% in December, IEA Reports]

(Bloomberg) -- OPEC's compliance with record supply cuts announced last year slipped to 58 percent in December, down from 60 percent the previous month, according to the International Energy Agency.

The 11 members of the Organization of Petroleum Exporting Countries bound by production quotas raised output by 95,000 barrels a day to 26.6 million a day last month, the Paris-based IEA said in a monthly report today. That means OPEC exceeded its collective target by 1.8 million barrels a day.

OPEC, responsible for about 40 percent of global crude supply, announced an unprecedented series of production cuts in late 2008 amounting to 4.2 million barrels a day in response to collapsing global demand. Its commitment to that target faltered last year as prices rebounded by 78 percent.

[Norway's oil/gas output seen down 1 pct in 2010-NPD]

STAVANGER, Norway, Jan 15 (Reuters) - Norway's combined oil and gas production fell by about one percent in 2009 compared to the previous year and is expected to slip further this year mainly as a result of dropping oil output from maturing fields.

Gas sales, however, are set for another record year in 2010.

Europe Oil Supply Insulated From Russia, Belarus Spat, IEA Says

(Bloomberg) -- Germany, Poland and three other European countries that receive Russian oil supplies via the Druzhba pipeline across Belarus can weather a potential disruption, the International Energy Agency said.

"Although there is no imminent threat of tighter European crude supplies, given what is as stake for Belarus, a resolution may take some time to achieve," the IEA said in a report today.

Officially, Peak Non-Opec in 2010. Really?

Readers of this blog and subscribers to my newsletter know my view: the peak **year** for Non-OPEC was 2004 at a sustained annual average of 42.068 mbpd. While it's always possible that we could hit that level on a monthly basis (and we did so in October of 2008–at least until the revisions start!), it's highly unlikely Non-OPEC would be able to sustain that number for an entire year. The declines from existing fields are too strong now, and the new finds are too onerous, expensive, and slow to change the well-established trend. However, it's always amusing to hear what the two energy agencies think–officially speaking, that is.

Oil Falls for a Fifth Day on Dollar Strength, Rising Supplies

(Bloomberg) -- Crude oil fell for a fifth day, its longest losing streak in a month, as the dollar gained against the euro, curbing demand for commodities as a currency hedge.

Oil is heading for its first weekly decline in five weeks after a U.S. government report showed supplies of crude and fuels increased, leaving the nation's stockpiles of distillates like heating oil 18 percent higher than normal. The International Energy Agency kept its forecast for 2010 global oil demand unchanged at 86.3 million barrels a day in a monthly report today.

"If the economy is improving there is an expectation oil stocks will start to fall, but it's not happening," said Frank Schallenberger, head of commodities research at Landesbank Baden-Wuerttemberg. "The dollar is an extra point for today."

Consumer prices driven higher by gasoline

NEW YORK (CNNMoney.com) -- Consumer prices rose in 2009 as gasoline prices were more than 50% higher from 2008's depressed levels, the government said Friday.

[Can we survive with peak oil fast approaching?]

Matthew Simmons, in order to produce his report on Saudi Arabia's oil levels, contacted ex-well head managers, studied accounts and most importantly studied the thousands of reports submitted by Saudi Arabia up to 1982 and a few other important documents since.

He believes that Saudi Arabia is well past its peak oil point and has been producing oil from ever depleting fields for years.

He believes that very soon, the amount of water being pumped into these wells will take its toll in a sudden and dramatic way.

No amount of shale oil or drilling of new wells will account for anywhere near the amount that is produced from Saudi's wells.

[Gas cuts 'won't happen again]

Norway is doing everything possible to identify the causes of outages at a number of natural gas facilities earlier this year, Energy Minister Terje Riis-Johansen said today, adding the disruptions in flows to Europe would not be repeated.

[Brewing GoM storm could affect platforms]

Tropical storm-like conditions in the Gulf of Mexico could disrupt offshore oil & gas production over the weekend, according to the weather forecasting service AccuWeather.com.

Meteorologist Joe Bastardi said 'an El Nino based rogue storm' in the GoM will produce gales of up to 50mph and 10-15ft waves Friday and Saturday. The storm is expected to show up in the western and central Gulf about 1.00 pm Friday and move through the eastern portion of the Gulf Saturday.

[Phil Flynn: Demand Dreams]

Demand is back and we are going to be in trouble, hey la de da demand is back. All right based on the Department of Energy it is clear that demand is far from being back in the US but just you wait according to Goldman Sachs as they say that demand is going to be back to pre-recession levels by the third quarter of this year. What?? That is right. Peak demand fears may give way back to peak oil fears as Goldman says that strong demand

> from emerging markets will increasingly offset the lagging recovery in OECD demand. Are they right?

[Alberta to study pace of oil sands growth]

> Alberta's new Energy Minister says his government needs to examine ways to moderate the pace of oil sands development, signalling a shift away from policies that favour unconstrained oil patch growth.
>
> For years, the province has resisted calls to slow the frenzy of activity around Fort McMurray. But Ron Liepert, who was named to the energy portfolio in a provincial cabinet shuffle Wednesday, says he wants to make sure future oil sands development does not again overstretch the capacity of the province's infrastructure.

[Kazakhstan hopes to end Karachaganak row in 2010]

> ASTANA (Reuters) - Kazakhstan hopes to resolve a dispute with a group of foreign companies led by BG and Eni over the huge Karachaganak gas field this year, Energy Minister Sauat Mynbayev said on Friday.

[QUOTEBOX - Washington's take on new CFTC energy position limits]

> The Commodity Futures Trading Commission on Thursday proposed new rules that would limit big traders' speculative positions in energy futures.
>
> Congress took a hard look at excessive speculation after energy and food prices surged in 2008, prompting CFTC to increase oversight of the markets. Here are some comments from political figures on the CFTC's proposal.

[Exxon’s Port-Jerome, Fos-Sur-Mer Sites in France Hit by Strike]

> (Bloomberg) -- Exxon Mobil Corp.’s refineries at Port-Jerome Gravenchon in northern France and Fos-sur-Mer on the Mediterranean were hit by strikes, a spokeswoman for the company said.
>
> “The strike has affected a part of the operations, but the refineries are not closed,” said Catherine Brun, the company spokeswoman.

[E.ON May Lose Grip on $53 Billion German Gas Market]

(Bloomberg) -- E.ON AG, Germany's largest natural- gas supplier, may lose control of the country's 36.5 billion- euro ($53 billion) market as clients buy cheaper fuel elsewhere and the utility is forced to open its pipelines to competitors.

Lyondell Creditors Want Probe of Evaluation of Reliance Bid

(Bloomberg) -- Lyondell Chemical Co.'s unsecured creditors want a court-appointed examiner to investigate how the chemical maker is evaluating a bid from Reliance Industries Ltd.

GM puts brakes on Hummer production

NEW YORK (CNNMoney.com) -- General Motors has suspended production of Hummer vehicles pending Chinese government approval of its deal to sell the unit to Sichuan Tengzhong Heavy Industrial Machinery Co., a GM spokesman said Thursday.

Clerics in Yemen warn of jihad if US sends troops

SAN'A, Yemen – A group of prominent Muslim clerics warned Thursday they will call for jihad, or holy war, if the U.S. sends troops to fight al-Qaida in Yemen.

The group of 15 clergymen includes the highly influential Sheik Abdul-Majid al-Zindani, whom the U.S. has branded a spiritual mentor of Osama bin-Laden but who is also courted by the Yemeni government for his important backing.

The Rome-Tehran Axis

Italian companies—with Rome's backing—have equipped Iran's military and contributed to the regime's satellite and possibly nuclear programs.

Tough to Free Troops From Oppressive Tyranny of Fuel

What will it take for the military to be greener? If $400 a gallon fuel, incalculable logistics burdens and losses of human life don't light a fire under the leaders of the Defense Department, it's hard to imagine what will.

The current wars have exposed a previously ignored military vulnerability: the huge dependence on fossil fuels. The daily requirement for Afghanistan is 300,000 gallons a day. Most of it comes through a tenuous supply line through Pakistan where fuel theft is on the rise and roadside bombs target convoys.

At the Pentagon, officials are fully aware of the situation but are not sure what to do about it.

[Fuel technology could make military vehicles more viable for commercial use, panel says]

> Military vehicles that use advanced vehicle energy technology cut their own exorbitant fuel costs, and could help make the product more accessible to private commercial buyers, according to industry leaders in a panel discussion today at the North American International Auto Show at Cobo Center in Detroit.

[Mitsubishi testing electric cars in Quebec]

> Up to 50 electric vehicles will be tested in Quebec as part of a bid to bring all-electric vehicles to the province, Hydro-Québec and Mitsubishi Motors say.
>
> The trial, described as the largest electric-car pilot project in the country, will take place in the Montreal suburb of Boucherville. City staff will test the Japanese automaker's i-MiEV, a compact four-door hatchback. Hydro-Québec will provide the infrastructure and collect information on how the cars perform.

[Solarworld, Q-Cells Drop as Germany Poised to Reduce Solar Aid]

> (Bloomberg) -- Solarworld AG and Q-Cells SE led declines among Germany’s solar power companies after Reuters reported that the government will reduce aid to the industry by more than some analysts estimated.

[Reid pledges to fight for geothermal funds]

> WASHINGTON -- Sen. Harry Reid said Thursday the Senate will debate a sweeping climate change bill this spring, and he will use it as a vehicle to seek more federal research dollars and more generous tax credits for geothermal development.
>
> But in comments at a geothermal industry conference in New York, the Senate majority leader from Nevada added the bill likely will need bipartisan support, and if it fails to get that, "we'll have to drop back."

[Germany Prepares Plan for Crumbling Nuclear-Waste Repository]

> (Bloomberg) -- German regulators will recommend today how to manage 126,000 barrels of nuclear waste stored at a crumbling repository in central Germany, a Federal Office for Radiation Protection spokeswoman said.

The atomic regulator has been weighing options for the facility including repackaging the waste and storing it at another repository, creating safer chambers to store the material or filling the entire mine with concrete.

[How Do You Prepare For The Unimaginable?]

Okay, I might be exaggerating about the composting toilet (but not much). Sharon [Astyk] says she is not a survivalist, and most of her commentariat claims not to be as well - they say they are something much more positive. But some of the stuff that runs through the comment threads leans toward survivalism, albeit with a heavy naïve streak. The "real" survivalists are building compounds and laying in ammo to ward off the hungry mobs and looters; these cherubic souls think they will go on placidly gardening in an undisturbed fashion while the hungry ravening mobs swirl around them. If even half of what they are predicting on the blog and in their comments comes true (and I don't doubt it will, mind you) I just don't see how that's going to be possible.

[Seeing 2020: The Next Decade On Kauai, Part I]

Where will Kauai be in 2020? What are the problems we, as an island, face and what are some of the best ways to address these challenges today to create a better future for our children tomorrow?

Arguably the previous decade, with its numerous dramas and shocks of terrorism, climate change, peak oil, global pandemics, natural disasters, soaring costs, and economic collapse have driven home the point that the 63,000 of us and the million plus tourists we host each year are not insulated from forces beyond these shores.

[China needs to cut use of chemical fertilizers: research]

BEIJING (Reuters) - China, the world's largest grain producer and top consumer of fertilizers, should reduce its reliance on chemical fertilizers by as much as 50 percent because excessive use has resulted in serious pollution, according to a research report.

"Not many people are aware that agriculture is the largest polluter in China, which should be a subject for serious concern," said Wen Tiejun, head of the School of Agricultural Economics and Rural Development, Renmin University of China.

Chemical fertilizers had helped China, the world's most populous country, to feed its population despite limited farmland, but excessive application had led to low farmland efficiency and serious pollution, according to a research report issued by the school and Greenpeace on Thursday.

North Korean Starvation Still Seen As A Factor In 2010

> The towns' 5 tractors were immobilized from lack of fuel. The train to Pyongyang ran about every 2-3 weeks, at less than 5 kph. Travel permits (bribes required) are a necessity - the regime doesn't want its showplace (Pyongyang) overrun by the poor and disabled. The 'affluent' have bicycles.
>
> Farmers were required to meet weight quotas, and often did so by adding rocks.

Nature-for-oil plan in Ecuador in jeopardy

> QUITO — A plan to leave major oil reserves in Ecuador's Amazon basin untouched in return for a major international donation was in jeopardy Thursday after Foreign Minister Fander Falconi resigned.
>
> Falconi spearheaded the 3.5-billion-dollar initiative until President Rafael Correa on Saturday called the payment conditions he was negotiating with the United Nations "outrageous."
>
> Correa even threatened to start drilling for oil in June at the ITT camp in Yasuni National Park unless conditions changed.

Entergy Sues Army Corps Over Katrina Storm Damage

> (Bloomberg) -- Entergy Corp., the New Orleans-based nuclear power plant operator, sued the U.S. government seeking restitution for alleged negligence by the Army Corps of Engineers in designing levees demolished by Hurricane Katrina.
>
> Entergy and a U.S. unit of German insurer MunichRe are seeking monetary damages, including recovery of $69.5 million in claims paid for losses in the August 2005 storm, according to a complaint filed Jan. 12 in federal court in New Orleans.

Soros Says U.S. Needs Carbon Cap to Unlock Clean-Energy Finance

> (Bloomberg) -- A U.S. law to curb carbon emissions would spur billions of dollars of spending on green-energy projects in developing countries, billionaire George Soros said.
>
> “If you had the legislation in the United States you would have a market” for carbon emissions and for offsetting credits provided to clean-energy projects in the developing world, Soros said at a conference yesterday in New York. “Right now you don’t even have that. The United States is the laggard.”

[Carbon plan may break us: generator]

> The country's largest single power generator, Macquarie Generation, has warned that its viability is threatened by the Federal Government's proposed emissions trading scheme.
>
> Its concerns throw into doubt the State Government's plans to privatise the power industry by selling electricity retailers and output from power generators.

[Want to help the environment and get cash back for cutting carbon emissions?]

> The Alaska dividends model is just one of several ways the 1,200-page Waxman-Markey climate change bill could be simplified and made more effective.

[Emissions Rules are On the Way]

> The Copenhagen summit aimed at limiting greenhouse gases ended with a whimper. Climate legislation in Congress is stumbling. But curbs on U.S. emissions from power plants and factories are coming anyway.
>
> The Environmental Protection Agency is poised to take an historic step at the end of March, issuing the first-ever national rules to fight climate change. That puts companies on edge. "With the economy still limping, it's not the right time for this massive increase in the cost of everything we do," says Michael G. Morris, CEO of American Electric Power (AEP) (AEP).

[The New Storm Brewing On the Climate Front]

> The cap-and-trade bill may have stalled in Congress, but its opponents aren't taking it easy. They've launched a new assault on the Environmental Protection Agency (EPA)—hoping to neutralize the only legal weapon the Obama administration has to curb carbon emissions if the climate legislation fails.

[Puzzle me this: climate change theory allows no ice age]

> The crux of Lord Monckton's complaint is that the world's climate is nowhere near as sensitive to greenhouse gases as climate scientists believe. The thousands of researchers who have worked on the problem since the 1890s have all been getting their maths wrong, he believes.
>
> It is a bold thesis because climate sensitivity is the keystone to our understanding of global warming.

How Wetlands Worsen Climate Change

> Big, bad carbon dioxide gets most of the attention when it comes to greenhouse gases, but it's not the only one that's warming the earth. Methane — a gas that is found in everything from landfills to cow stomachs — also plays a big role. Although global methane-emissions levels are much lower than CO2 emissions, pound for pound methane is a more powerful greenhouse gas; a ton of it has 23 times the warming effect of a ton of CO2. And methane, like CO2, is on the rise thanks to us: about 60% of global methane emissions come from man-made sources, and the atmospheric concentration of methane has increased by around 150% since 1750, according to the Intergovernmental Panel on Climate Change. Now there's new focus on a pair of methane sources that we usually don't think of as natural polluters: wetlands and rice paddies.

Arctic permafrost leaking methane at record levels, figures show

> Scientists have recorded a massive spike in the amount of a powerful greenhouse gas seeping from Arctic permafrost, in a discovery that highlights the risks of a dangerous climate tipping point.
>
> Experts say methane emissions from the Arctic have risen by almost one-third in just five years, and that sharply rising temperatures are to blame.

How High Will Seas Rise? Get Ready for Seven Feet

> As governments, businesses, and homeowners plan for the future, they should assume that the world's oceans will rise by at least two meters — roughly seven feet — this century. But far too few agencies or individuals are preparing for the inevitable increase in sea level that will take place as polar ice sheets melt.