



Drumbeat: February 6, 2010

Posted by [Gail the Actuary](#) on February 6, 2010 - 10:38am

Topic: [Miscellaneous](#)

[OIL FUTURES: Oil Drops Steeply, Breaking Key Support Level](#)

Crude oil futures fell sharply for the second day in a row Friday after breaking through a key support level that traders had been watching for a sign of whether the energy markets would continue to trend lower. The drop in crude prices spurred losses for other commodities, which worsened as the U.S. dollar gained strength.

Crude futures, which had been little changed throughout the morning after the release of anxiously awaited U.S. jobs data, fell below their January low of \$72.43, which triggered further selling that pushed the benchmark March contract below \$70 for the first time since mid December. Light, sweet crude for March delivery settled down 2.7% at \$71.19 on the New York Mercantile Exchange. Brent crude on the ICE futures exchange closed down 3.8% at \$69.36 a barrel.

"Instead of the news making the price, it's the price making the news," said Tim Evans, an analyst at Citi Futures Perspective in New York. Evans said it was clear that crude's drop to a session low of \$69.50 was triggered by a glut of pre-programmed orders to sell oil if it broke significantly below the January low support level.

When oil or any other financial asset marks a particular low price repeatedly, traders refer to it as a "support level," because it indicates that there are lots of buyers willing to buy at that level, often using pre-programmed trading strategies. But when an asset falls through a key support level - as oil did Friday - it indicates many buyers are no longer interested in buying at that price, triggering a sharp drop to the next support level down. For oil, this is around \$70 a barrel.

[Gazprom to delay Shtokman gas project three years](#)

State-run Russian energy giant Gazprom will delay development of the giant Shtokman gas field in northern Russia by three years because of "changes in the market situation," shareholders said Friday.

Pipeline gas production is expected to start in 2016 while liquefied natural gas production should begin in 2017, after final investment decisions in 2011, a statement issued by shareholders said.

Gazprom's original plan called for production, estimated at 23.7 billion cubic metres of

natural gas a year, to begin in 2013.

[Cnooc To Sign \\$2.5 Bln Deal With Tullow - Sources](#)

Cnooc Ltd. (CEO) has agreed to buy a stake in the Ugandan oil assets of Tullow Oil PLC (TLW.LN) for US\$2.5 billion, people with direct knowledge of the deal told Dow Jones Newswires on Friday.

The deal--due to be signed later Friday in London--strengthens the foothold of Chinese companies in East Africa's energy sector. Cnooc is exploring for crude oil in neighboring Kenya, while China National Petroleum Corp. and China Petrochemical Corp. have major producing oil assets in Sudan.

[Endless Oil: Peak Production vs. Oil Price](#)

"Endless Oil" is the title of a piece in BusinessWeek (Jan, 18, 2010) that was written by Stanley Reed. It was interesting for me because I remember a time when BusinessWeek would not have published a tissue of nonsense like that article. Perhaps even more important, I was surprised when I saw the names of some of the persons whose opinions were cited. All I can say is that my dream tonight might involve encountering them in a seminar room or conference; then they would find out the true state of the world oil economy.

Let me begin with the narrative that all of my energy economics students must know perfectly after my second lecture. The Russian oil output is probably close to peaking, and in any event the director of one of the largest Russian firms says that his country will never produce more than 10 million barrels per day (= 10mb/d). This number may be slightly wrong, but it happens to be one-tenth of the amount (= 100 mb/d) that the present CEO of Total (the French oil major) says is the absolute maximum for world production. (Another Total executive recently suggested 95 mb/d).

[Iran May Be Near Uranium Deal](#)

Iran might be close to a deal to have uranium enriched abroad, the country's foreign minister said Friday. But he proposed a condition that might not be acceptable to the United States and other governments that have been trying to negotiate a compromise over Iran's nuclear program.

Under such an agreement, Iran would send low-enriched uranium to the West and receive higher-grade uranium in return for use in a reactor that would produce isotopes for medical use.

[Baker Hughes: US Oil, Gas Rig Count Up 18 To 1,335 This Week](#)

The number of rigs drilling for oil and gas in the U.S. climbed this week as producers continued to ramp up output amid higher prices.

The number of oil and gas rigs rose to 1,335, up 18 rigs from the previous week, according to data from oil-field services company Baker Hughes Inc. (BHI). The number of gas rigs was 878, an increase of 17 rigs from last week, while the oil rig count was 445, an increase of one rig. The number of miscellaneous rigs was unchanged at 12 rigs.

[FACTBOX-Nigerian crude oil production outages](#)

Nigeria has at least 800,000 barrels per day (bpd) of crude oil shut in, more than 25 percent of its capacity, mainly due to sabotage attacks on oil facilities, according to oil companies and industry sources.

[Petrobras CEO: Peak Oil Production is Now](#)

On Thursday, the energy blog TheOilDrum.com reported on a December 2009 presentation by Petrobras CEO Jose Sergio Gabrielli in which he estimated that world oil production would peak this year. Gabrielli, head of Brazil's national oil company, joined the ranks of other international oil honchos, including former Aramco executive Sadad al-Husseini and Total's CEO Christophe de Margerie, in stating that the level of global oil production cannot keep pace with growing demand. The logical result of this trend is oil scarcity that will lead to quickly rising crude prices in the next few years.

[An Interesting Presentation by Petrobras CEO](#)

Sergio Gabrielli gave a presentation in December of last year on the topic of future oil production. His work showed a peak in 2010, the same year M. Hubert predicted it. Whether peak oil is real remains to be seen but this is the first big company I have seen predicting it before 2017 (BP's prediction), although Chevron has made noises about everything relating to peak oil, except the topic itself (to my knowledge their official prediction is 2020 or 2030).

In any case, I can't get a copy of the presentation in english and the best I can do is the writeup of what he said on the oil drum, so if you want to read the most dire predictions and implications of his talk, you can here. Personally, I am more interested in the charts, which are below (these are ones used in his presentation but translated to english):

[The Quiet Energy Revolution](#)

Two monumental shifts in the world of energy are underway right now: one technological, the other financial. They will change the way we power our lives (especially our cars), provide a real measure of energy security, and help curb greenhouse gas emissions. Neither shift has anything to do with the turn to a green renewable energy economy promised by President Obama. Physics ensures that will never happen, no matter how much wishful thinking (and government subsidy) is applied. Sorry, greens, carbon-based energy will continue to dominate our energy future, not windmills or solar panels.

The first profound shift was made possible by a little-noticed technological breakthrough in the last three years that has changed the way we extract natural gas. . .

The chief obstacle to developing a natural gas infrastructure capable of supplying service stations and highway rest stops is regulatory. If that is removed—and here we do need government action—we could expect to see trucks, buses, and cars running on natural gas in a relatively short period of time. The reduction in greenhouse gas emissions would be considerable.

[Banks Lured By 'Sexy' Solar, Wind Energy Projects](#)

About 30 banks including BNP Paribas SA and Rabobank Nederland NV are being lured back into financing “sexy” U.S. renewable energy projects following an \$80 billion government investment in the industry, a project manager said.

Debt financing may return to the 2008 level of about \$6 billion in 2010, after falling to \$3.2 billion last year, as banks lend more to wind and solar energy projects in the U.S., said Bruno Mejean, a managing director in New York at Norddeutsche Landesbank Girozentrale AG, a state-owned German lender.

[U.S. refiners brace for Mid-Atlantic blizzard](#)

U.S. oil refiners were activating hazardous weather contingency plans at their East Coast refineries on Friday as a paralyzing major snowstorm took aim at the Mid-Atlantic region.

"Our Paulsboro refinery is making preparations, but has not reported any impacts to production," said Bill Day, a spokesman for leading refiner Valero Energy Corp. (VLO.N).

Valero's 195,000 barrel per day Paulsboro plant in New Jersey was among regional refineries potentially in the storm's cross hairs.

[Tesoro CEO says expects more refinery closures](#)

Tesoro Corp (TSO.N) Chairman and Chief Executive Bruce Smith said on Wednesday he expected that more U.S. refineries will close in 2010 and may include plants operated by major oil companies.

"I think you will see more closures," Smith said in a webcast of a presentation to the Credit Suisse Energy Conference in Vail, Colorado. "I think we'll even see some majors."

[SEC Issues Guidance On Companies' Climate-Change Disclosures](#)

The Securities and Exchange Commission (SEC) has provided public companies with interpretive guidance on existing SEC disclosure requirements as they apply to business or legal developments relating to the issue of climate change.

Specifically, the SEC's interpretative guidance highlights the following areas as examples of where climate change may trigger disclosure requirements:

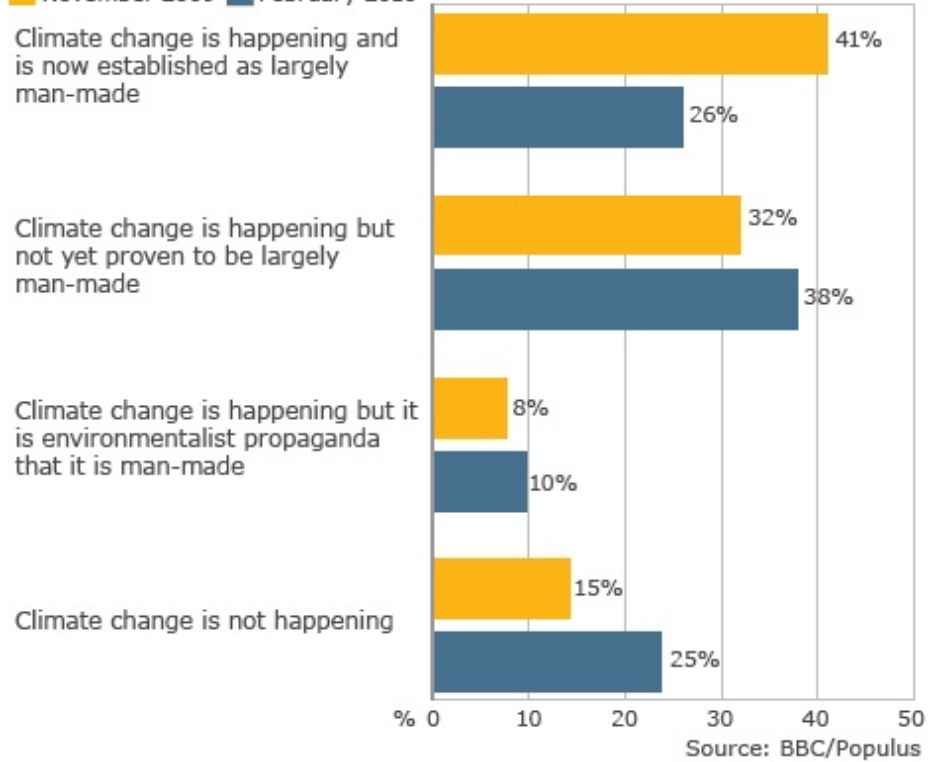
- Impact of legislation and regulation. . .
- Impact of international accords. . .
- Indirect consequences of regulation or business trends. . .

[Climate scepticism 'on the rise', BBC poll shows](#)

The number of British people who are sceptical about climate change is rising, a poll for BBC News suggests.

Which of these statements is closest to your view?

■ November 2009 ■ February 2010

[Ballot measure targets Calif. climate-change law](#)

Supporters of an effort to suspend California's landmark greenhouse gas law are now able to collect signatures to get a measure on the statewide ballot, officials said.

The measure championed by Republican state Assemblyman Dan Logue would suspend the state law that set increasingly stringent caps on greenhouse gas emissions, leading to a 25 percent reduction by 2020.

The proposed ballot measure would put the climate change law on hold until California's beleaguered economy improves.

[Study: Stronger National Renewable Energy Standard Needed For Significant Clean Energy Job Growth](#)

The Job Impacts of a National Renewable Electricity Standard study, conducted by independent firm Navigant Consulting Inc. and released by the RES Alliance for Jobs, found that a 25% by 2025 national RES would support an additional 274,000 renewable energy jobs over a no-national-policy option. This total is also significantly higher than the expected jobs supported in the current House and Senate provisions under consideration in Congress, according to the RES Alliance for Jobs.

In addition, the study found that without stronger near-term targets than currently envisioned, industries like wind will experience flat job growth and long-term stagnation, while the U.S. biomass industry could collapse altogether. The RES Alliance

recommends raising near-term RES targets in federal legislation to 12% by 2014 and 20% by 2020.

The study emphasizes that while tax credits continue to play a critically important role in preserving the viability of existing facilities, an RES is needed in order to support both near- and long-term investments.

[Proposal to tax wind power stirs debate](#)

Under the proposal, which may be introduced during the legislative budget session that starts next week, wind energy producers would be taxed \$3 per megawatt hour — a rate comparable to about a 5 percent severance tax on minerals. The revenue would be split 60-40 between the state and local governments respectively.

Freudenthal said the generation tax was a matter of fairness, because unlike the coal, oil and natural gas industries, the wind energy industry doesn't have to pay severance taxes.

"It's a business, and as such should be subject to the same expectations of every other business," he said.

[Heroux-Devtek sees promise of wind energy despite lower short-term sales](#)

Wind energy projects, which are being built or planned across Canada and in other countries, remain constrained in the short-term by the lack of transmission infrastructure and tight credit markets.

"However, we remain very much committed to that sector given its huge potential as industrialized nations seek to increase their exposure to clean energy sources," Labbe told analysts.

[25 Percent of U.S. Nuclear Power Plants Are Leaking Radioactive Chemicals](#)

Would you like a little radioactive tritium with your water?

As far fetched as it sounds, the Associated Press recently reported that at least 27 of 104 nuclear reactors across the United States are leaking potentially dangerous levels of tritium into the groundwater around the plants.

The scope of the problem surfaced after the recent discovery of a leak at the Vermont Yankee nuclear plant. According to the AP, new tests have shown that the levels of tritium in the wells at the Vernon, Vermont site are more than three-and-a-half times the federal safety standard.

So is it as bad as it sounds? That's up for debate.

[U.S. Energy Dept cancels surplus uranium transfers](#)

The U.S. Energy Department has canceled plans to put into the market during 2011 extra government-owned surplus uranium supplies, Energy Secretary Steven Chu told Congress on Thursday, but the uranium transfers will continue for this year.

The department had planned to transfer next year up to 1,125 tonnes, or about 2.48 million lbs, of its surplus uranium a year to raise money to pay for the cleanup of the Portsmouth uranium enrichment plant in Ohio. . .

Not only would business be taken away from domestic uranium producers, but the additional government supplies in the market could have depressed prices, making it difficult for producers to expand operations.

[Mining Company Grupo Mexico Buys Oil Drilling Firm For \\$240 Million](#)

Mexican copper mining and railroad company Grupo Mexico SAB (GMEXICO.MX) said Friday that it bought oil drilling services company Compañía Perforadora Mexico SA, or Pensa, for \$240 million.

In its fourth-quarter earnings report, Grupo Mexico said the acquisition "is aligned with our strategy to increase our participation in the infrastructure sector."

[Mexico State Oil Monopoly Pemex Sells MXN15 Billion In Bonds](#)

Mexico's state oil monopoly, Petroleos Mexicanos, said Thursday that it sold bonds for 15 billion pesos (\$1.14 billion) in three tranches.

In a press release, Pemex, as the company is known, said it placed MXN8 billion in five-year bonds at a spread of 70 basis points over the benchmark 28-day TIE interbank rate.

It also sold MXN5 billion in 10-year bonds at a fixed rate of 9.1% and about MXN2 billion in 10-year bonds denominated in inflation indexed UDIs that yield a fixed 4.2%.

[Mexico shuts two oil ports due to weather](#)

Two of Mexico's main oil ports in the Gulf of Mexico were closed on Sunday due to poor weather, the government said.

Mexico, a major oil supplier to the United States, shut the Coatzacoalcos and Dos Bocas

oil export terminals, the communications and transport ministry said in a statement.

[Russia resumes oil flows to Kazakh refineries](#)

Russian oil firms have resumed oil shipments to Kazakhstan after the Federal Customs Service abolished an oil export duty levied on crude supplies to Kazakh refineries from Feb. 1, industry sources said on Friday.

[Serbia, Gazprom sign deal for South Stream storage](#)

Serbian gas monopoly Srbijagas and Russia's Gazprom (GAZP.MM) signed a deal on Friday formally creating a joint venture to manage a major underground gas storage as part of the future South Stream pipeline. . . .

The storage will be a part of a wider Gazprom-led South Stream pipeline project that has been designed to bypass Ukraine to transport Russian gas under the Black Sea to Bulgaria and onwards to Serbia and Europe.

[Oil Output Swells 2.8% As Rosneft Pumps More](#)

Production grew to 10.04 million barrels a day, the Energy Ministry's CDU-TEK unit said in an e-mailed statement. Oil output was down slightly from December, when the country produced 10.05 million barrels a day.

Producers exported 4.78 million barrels of oil a day to countries outside the former Soviet Union, a decline of 0.5 percent from a year earlier and 1.4 percent from December. Total exports were 5.22 million barrels a day, excluding supplies to Belarus, for which CDU-TEK said it didn't have data.

[Halliburton May Gain From Norway's Oil Spending Push](#)

The government is urging producers such as state-controlled Statoil ASA and ConocoPhillips to improve recovery rates from the country's oil deposits. Output has almost halved in the past decade after 40 years of pumping oil and natural gas from fields such as Ekofisk, Oseberg and Troll.

Statoil aims to spend 8 billion kroner (\$1.4 billion) on upgrading installations this year, while Conoco is planning more platforms at Ekofisk, Norway's largest oilfield. The Petroleum Directorate estimates 54 percent of crude in existing fields may be left underground if companies fail to improve recovery by speeding up drilling for harder-to-reach deposits.

[Energy regulatory body hikes wind power tariff](#)

The Gujarat Energy Regulatory Commission (GERC) has hiked the tariff for procurement of power generated from wind energy sources to Rs 3.56 per unit from earlier 3.37 per unit. This is a second order in a row where the regulator has supported the non-conventional energy players.

[Utilities seek long-term green deals](#)

For the first time, the state's major power companies will make long-term commitments to buy green energy like wind and solar power. The four investor-owned utilities in Massachusetts - National Grid, NStar, Western Massachusetts Electric Co., and Unitil Corp. - are soliciting bids from producers of energy from renewable resources. Bidders have until Feb. 19 to submit proposals for 10- to 15-year contracts to sell power to the utilities, which do not make their own power, but rather buy and distribute it.

[Wind Power in Europe Grows, but Credit Remains Tight](#)

For the second year in a row, more wind power capacity was installed in the European Union than any other power technology, according to data compiled by the European Wind Energy Association.

The association reported that 39 percent of all new capacity installed last year was wind power. Runners-up were natural gas, which accounted for 26 percent of new capacity, and solar photovoltaics, which accounted for 16 percent.

[CEZ To Sell Its Chvaletice 800MW Coal-Fired Power Plant](#)

Czech power company CEZ AS (BAACEZ.PR) Friday said it has transferred its Chvaletice power plant into a separate joint stock company for its likely sale.

The coal-fired, 800 megawatt plant faces rising costs for fuel supplies and carbon emissions and isn't near any coal mines. As such, it is one of the most expensive power plants CEZ operates

[Pa. wants last Centralia holdouts gone as town's coal mine fire, ignited in 1962, smolders on](#)

After years of delay, state officials are now trying to complete the demolition of Centralia, a borough in the mountains of northeastern Pennsylvania that all but ceased

to exist in the 1980s after the mine fire spread beneath homes and businesses, threatening residents with poisonous gases and dangerous sinkholes.

More than 1,000 people moved out, and 500 structures were razed under a \$42 million federal relocation program.

[North Energy rings bell on debut](#)

North Energy, which has its headquarters in Alta, is focusing on Norway's northern play and already boasts a small but high-profile portfolio.

[Reserve Potential Remains Positive in Norwegian North Sea](#)

Five countries bordering the North Sea produce oil in its waters. The British and Norwegian sections are believed to hold the largest North Sea oil reserves. Experts estimate that the Norwegian sector contains about 55% of the North Sea's oil reserves and 45% of its gas reserves.

[AWEL Looking for Jackup to Drill Offshore Mumbai Block](#)

Adani Welspun Exploration Limited (AWEL), the Indian based independent Oil and Gas E & P company with assets in India, Thailand and Egypt, is planning to drill in January, 2011 in its Mumbai offshore Block MB-OSN-2005/2, situated on the west coast of India

[No proposal to takeover ONGC's Assam fields](#)

State-owned Oil India today said it will look at taking over Oil and Natural Gas Corp's Assam oilfields when an offer is made and will decide on the acquisition after due diligence. In a statement, OIL said there was no directive from the government to it to take over ONGC's Assam oilfields.

[Severe ice situation costs Finland dear](#)

The current severe ice situation will cost Finland dearly, as large masses of ice have packed together in the Gulf of Finland. Many cargo vessels have been forced to wait for several hours for icebreakers to assist them, sometimes even for a whole day. Moreover, the Nordlandia, an Eckerö Line ferry carrying hundreds of passengers, also got stuck in the ice at the end of January, having to wait for help for several hours. The daily rate for the use of one icebreaker including fuel will be EUR 10,000 to 20,000.

[Bodies of miners killed at coalmine in Luhansk region recovered](#)

The bodies of three miners who died at a former coalmine in Luhansk region have been brought to the surface, and another miner died en route to hospital, the Ukrainian Emergencies Ministry's press service reported on Feb. 5. A gas explosion occurred at a disused coalmine, No. 153 in the town of Krasny Luch in Luhansk region, at a depth of 980 meters during unauthorized work to extract coal.

[Ukraine poll may deliver oil to Europe](#)

Ukraine's run-off election between Prime Minister Yulia Tymoshenko and rival Viktor Yanukovich, to be held on Sunday, may decide the future of a pipeline that could be used to deliver Caspian Sea oil to Europe, bypassing both Russia and Turkey. The pipeline was originally intended to carry crude oil originating in Azerbaijan in an east-to-west direction from terminals at the Black Sea Ukrainian port of Odessa to Brody, near Ukraine's border with Poland. In 2004, after Ukraine built the pipeline, it was decided for reasons discussed below to instead send Russian oil in the reverse of the originally intended direction, that is, from the southern branch of Russia's Druzhba pipeline and then northwest-to-southeast domestically within Ukraine. The possibility of again reversing the direction of oil flow, so that the fuel it carried would supply Europe as originally intended, was discussed last month.

[Turkey believes Azerbaijan would accept natural gas price proposal - energy minister](#)

Turkey believes that Azerbaijan will agree to the proposed price for natural gas from Shah Deniz field, Turkish Energy Minister Taner Yildiz told reporters on Wednesday, Anadolu Agency reported. "We have offered a reasonable price (for natural gas from Shah Deniz) to Azerbaijan and our offer has been accepted," said Yildiz.

[Strong demand for LNG set to make Qatar a leading player](#)

Global demand for liquefied natural gas (LNG) is expected to remain strong in the medium to long term, thus making Qatar a vital player in the global energy security, according to Shell. "In spite of a short-term dip in demand due to the global financial crisis, global demand for LNG is expected to remain strong in the medium to long term," Qatar Shell vice president Wael Sawan (pictured) told the Chatham House in London.

[Recurrent Energy. California utility in solar pact](#)

Solar power company Recurrent Energy said on Tuesday it signed long-term power contracts with California utility Southern California Edison for electricity generated by 50 megawatts of small-scale solar power systems. Financial terms of the deal were not released.

[Maine Poised For Green Energy Future?](#)

A top U.S. Department of Energy official says green jobs could help lead the country and Maine out of the recession. David Sandalow, the U.S. Assistant Secretary of Energy met with business and environmental leaders Thursday. He says Maine is poised to benefit from proposals supporting increased biofuel and ethanol production. Those programs could be a boost to the state's forestry and papermaking industries which are currently suffering.

[Slipping energy sales lead developer to drop out of ISO New England queue](#)

Citing a lack of demand for additional energy generating stations, Joe Fitzpatrick, CEO of DG Clean Power, has announced a plan to build a peaking power plant in Billerica has been removed from a list of proposals. Fitzpatrick said the proposal for the Billerica Energy Center, a 384-megawatt peaking plant slated to be built in North Billerica, has been taken off a queue of projects organized by ISO New England. Fitzpatrick said based on the current market, there is simply no demand for additional facilities.

[Obama's New Nuke Plant Plans Stir Old Fears Over Waste Storage](#)

President Obama is calling for \$54 billion in loan guarantees for a "new generation of safe, clean nuclear power plants." His administration also announced this week that it is dropping plans for underground storage of highly radioactive nuclear waste at Yucca Mountain. The position is drawing mixed reactions from around the country, including Maine, where waste from the decommissioned Maine Yankee plant will have to stay for the indefinite future, and in the rest of New England where nuclear power already makes up about 30 percent of the region's energy supply.

[Palmer announces Australia's "biggest" export deal with China](#)

MINING magnate Clive Palmer says his company has secured Australia's biggest export deal with a \$A69.39 billion agreement to sell coal to China. The Resourcehouse chairman on Saturday said the company's proposed China First coal mine and infrastructure project in central Queensland had reached a 20-year agreement with one of China's largest power companies, China Power International Development, the flagship company of China Power Investment Corporation (CPI).

[THE TEN ESSENTIAL RENEWABLE ENERGY STORIES THIS WEEK](#)

Big winds were blowing, fast wheels were spinning, and good grades were flowing for

renewable energy this week. Early in the week it was announced that global wind power increased 31% in 2009. Although this growth was spurred by the European Union, United States and China, it was not limited to the industrial giants. Turkey, Chile, and Morocco each increased their capacity by at least 30%.

[Gloom mining towns are boom towns thanks to housing frenzy.](#)

THE world's unquenchable thirst for energy has come to the rescue of the dying towns of southern Queensland. Chinchilla, Wandoan and Dalby are now in the middle of a housing boom that developers say is not just a once-in-a-lifetime but a once-ever opportunity that will see the population of the three towns double within the next five years. Wild estimates of investment topping \$100 billion are thrown about by locals, and wages for the lucky ones will easily exceed \$100,000 in towns where unemployment is already below 2 per cent.



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