# Outlook for 2006

Posted by Bubba on January 16, 2006 - 12:34am
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As we start the new year with oil prices 25% higher than this time last year, what are the pundits, trade, journals, and so called experts saying about what to expect in 2006 and beyond for worldwide oil supply?

By almost all accounts a lot of major projects should be coming on stream in 2006 (or started up in late 2005). Those include Bonga, Thunder Horse, Erha, Adar Yale, White Rose, ACG Mega-structure, Sakhalin I and II, etc. At least a couple of those projects, I have some personal knowledge of and fully expect them to produce as planned in 2006. On the other hand, a number of these projects have been delayed for 6 months to years, and lots of oil that was expected to be on in Iraq and the GOM remains shut in due to war/insurgency/natural disaster. What does all that mean for 2006 overall liquids production? Could we actually have peaked in 2005?

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Here are some "expert" predictions for crude supply throughout 2006 (in millions of barrels of total liquid unless otherwise indicated).

**Total world**

CERA 2005 - 85.07 2006 - 87.85
(Jan 06, total liq. supply capacity)

**Non - OPEC supply capacity only**

Petrol. Intell. Weekly 2006 - 51.08
(Jan 2, 2006)

IEA 2006 - 51.61
(Oil market report, Dec 13, 2005)

OPEC 2006 - 51.60
(Monthly oil market report, Dec 05)

CERA 2006 - 51.09 (Jan, 06)

Needless to say, all these forecasts are using the same assumptions, and the forecasters belong to the same club, eat lunch together, and their families go on vacations together.

The problem with these forecasts is that they imply far more precision than truly exists in the forecasts. I am not even sure that we know historical worldwide capacity for even a month in 2005 within +- *200 to 300 thousand barrels. I would guess that the error in these forecasts for non-OPEC supply to be on the order of* +- 1 million barrels per day. They, of course, are highly dependent upon 1) the rate of recovery from Katrina and Rita damage, 2) any supply disruptions from 2006 natural disasters, 3) further delay of projects like were seen at Thunder Horse, Bonga, Albacora Leste, etc, 4) the tight rig market worldwide and especially in the GOM, 5) political unrest in Russia, other FSU countries, Venezuela, Brazil, etc., 6) lack of experienced staff, 7) man-made disasters such as plant or platform fires, AND of course 8) the natural decline of the underlying fields.

**So what else**

Nearly all pundits, including CERA, are entering 2006 forecasting around $60/bbl for 2006. If you have read my posts previously, you know that I put very little stock in these forecasts. I suspect that long term price forecasts used by companies to justify their exploration and development programs will remain well below this level at about $30 to $45 per barrel. This may seem very low, but it is a major change from where these companies were in their thinking in 2004 and 2005.

Of course the price that oil is sold at is dependent upon the available supply capacity, the quality of the average barrel of crude compared to the refinery capacity for that crude, and the overall demand for crude. Demand of course is dependent on worldwide economic activity and price so we pretty much have a Catch 22 here. Stuart's prediction of $65/bbl +/- $20 is pretty much my thoughts, although my error bars would be slightly narrower.

**Some other predictions**

Dr. A. F. Alhajji, writing in World Oil claims

> Despite record oil prices, Middle Eastern oil producers have not, and will not, witness a boom similar to that of the 1970s. This result will have a significant impact on the future of world oil markets. These countries will not invest enough capital to expand production capacity to meet growing demand over the next 25 years. The oil producing counties will not be able to meet the predictions of IEA and EIA. If world demand projections by IEA and EIA are correct, then we should expect a world energy crisis - not because of a lack of oil resources, but because of a lack of investment in the major oil producing countries.

And in the same publication, Dr. D. Nathan Meehan, President, CMG Petroleum Consulting Ltd., Houston writes something you might have heard me say in the past:

> Easy pickings are gone. Field studies that my colleagues and I have completed in the last few years are yielding somewhat different results as we reevaluate mature fields. We routinely integrate 3D seismic, integrated petrophysics, fracture and fault modeling, well testing, reservoir simulation, etc., to identify ways to increase recovery and production rates in mature fields. These studies are our bread and butter, and the forecasts we used to make generally had increased oil and gas rates in our look ahead, as we recommended additional drilling, pattern realignment, expanded flooding, etc.
>
> More and more, our forecasts show only decreased decline rates and "dragging out the tail," as increasingly detailed analyses integrate real-time monitoring, intelligent wells

> and other advanced technology in place in the fields. The easy pickings are long past, and almost all of what once were marginal projects have been completed. We are helping not only independents, but majors and NOCs, pursue projects with ever-climbing costs per barrel and increased risks.

I guess the ultimate question is whether we peaked in 2005? My answer to that is I doubt it, but as many smarter people than me have articulated, we won't know until after it has happened and we can see the peak in the rear view mirror.