



Timely delivery is a critical part of a useful fuel supply

Posted by [Heading Out](#) on January 18, 2006 - 2:44pm

Topic: [Supply/Production](#)

Tags: [dry wells](#), [natural gas](#), [oil](#), [russia](#), [saudi arabia](#) [[list all tags](#)]

The weather in Moscow appears to be getting [worse](#) and the Washington Post reports:

Over the previous day, electricity consumption nationwide hit 146,000 megawatts — a record high since the Soviet collapse 15 years ago, the head of national electricity monopoly RAO Unified Energy Systems, Anatoly Chubais, said in televised comments. Electricity consumption in Moscow, where a construction boom is in full swing and the gray streets of the Soviet era have turned into glitzy thoroughfares festooned with bright lights, reached a record of more than 15,300 megawatts, RAO UES said in a statement.

Such demand is leading to some restrictions on power use. However they, in turn, are passing the blame:

Chubais, who faced criticism over a massive Moscow power outage last June, suggested that the state-controlled natural gas monopoly Gazprom could be partly to blame for any energy shortage during cold spell since it cut supplies. Gazprom spokesman Sergei Kupriyanov said the company was fulfilling all its obligations but that some industrial facilities would have to use reserves. The cold snapped power cables for some trolley bus lines and forced authorities in the region surrounding Moscow to replace them with gas-powered buses.

There is, however, an additional "knock on" effect from the bad weather. In order to supply their own domestic market Russia is [reported](#) to have cut supplies to parts of Europe by 20%. Bear in mind that the EU is supplied with about 40% of its gas from Russia at present.

The Russians are now denying the charge, but Italy, on the far end of the pipeline has seen a drop in supply, sufficient that it is [dipping into reserves](#).

Gas differs from oil in that it is not stored domestically in the same way that oil can be, but instead comes through pipelines with only limited storage capacity. In times where demand is high the pipelines can only effectively supply a given amount, regardless of the size of the ultimate reserve. Thus the present crisis is underlying the fragility of the pipeline networks and storage capabilities.

Moving to LNG supplies is not really going to change that in any beneficial way. The end consumers are still going to depend on the pipeline, and, as in Russia, industrial users will be the first to take a hit in a supply crunch. (Clothing markets are apparently being closed in Moscow for

example). And supplies will be even less flexible, in terms of being able to cope with sudden winter demands. It is this type of situation that has already seen companies in the US either switch fuel sources, or move abroad.

This same issue about getting the oil to the consumer is also potentially going to be a more immediate concern to consumers for oil, as the situation in [Nigeria](#). Shell is now reported to be losing 200,000 bd of production, and [Exxon Mobil](#) is reported to be closing their 600,000 bd terminal. This does not appear to be a situation that will be fixed soon, and the impact could be more immediately significant, than any potential oil disruption from Iran.

I was sent a copy of the latest [Newsweek](#) story on Saudi oil production (about which the same comment about the difference between reserves and production rates also holds). It initially tempted me to go back and start pulling data from a number of earlier posts that we have had on this topic. However, one paragraph in particular, got my attention.

The skeptics take for granted that big oil states are thoroughly explored, which is not the case. From 1995 to 2004, fewer than 30 new wildcat [exploration] wells were drilled in Saudi Arabia, compared with more than 15,700 in the United States. The numbers are similar throughout the Persian Gulf.

Without further comment, here is the data on the nature of the Saudi wells that were drilled in that time frame from Table 36 of the OPEC statistics report for 2004 that I have referred to in the past. The top line in the table is the number of wells that were drilled in that country, starting in the year 2000, and the last column gives the percentage change from 2003 to 2004. A dry hole is one that produces neither commercial quantities of gas nor oil.

Saudi Arabia	257	265	250	330	335	1.4
Oil	na	na	162	214	217	1.4
Gas	na	na	45	59	61	3.1
Dry	na	na	9	11	11	-3.3
Others	na	na	34	46	46	-
Average depth (ft)	8,049	8,100	8,150	8,109	8,120	0.1



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