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Peak Oil News

A Compilation of New Developments, Analysis, and Web Postings

Tom Whipple, Editor

Saturday, September 08, 2012

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Current Developments

1. OIL RISES AS JOBS DATA REINFORCES STIMULUS HOPES

Fri, Sep 7 2012

NEW YORK (Reuters) - Oil prices rose on Friday in volatile trading after a disappointing U.S. August jobs report weakened the dollar and bolstered expectations for stimulus from the U.S. Federal Reserve, even while denting the outlook for petroleum demand. Brent and U.S. crude futures posted small weekly losses, after five straight weekly gains and a surge of more than 9 percent in August. U.S. nonfarm payrolls increased by only 96,000 last month, the Labor Department said on Friday, below the forecasted rise of 125,000. While the unemployment rate dropped to 8.1 percent from 8.3 percent in July, it was largely due to Americans giving up the search for employment. Oil prices received a lift from expectations that the jobs report increases the likelihood that the U.S. Federal Reserve's two-day policy meeting next week will result in a third round of monetary stimulus, known as quantitative easing or QE3. Additional stimulus is expected to weaken the dollar, which is usually supportive to dollar-denominated commodities like oil. The dollar was broadly weaker on Friday, with the dollar index .DXY down nearly 1.0 percent, with the U.S. currency dropping to a near four-month low against the euro. <USD/>

2. OIL RISES AS JOBS REPORT STOKES STIMULUS SPECULATION

By Moming Zhou and Mark Shenk
Bloomberg
Sep 7, 2012

Oil advanced for a third day as U.S. payrolls increased less than expected in August, raising speculation that the Federal Reserve will boost stimulus measures to spur economic growth. Prices gained 0.9 percent after the Labor Department reported the economy added 96,000 workers last month, less than the 130,000 median estimate in a Bloomberg survey of economists. The Federal Open Market Committee will meet Sept. 12-13 to discuss monetary policy. "More than anything I think attention is focused on the employment numbers this morning, which were really bad," said Addison Armstrong, director of market research at Tradition Energy in Stamford, Connecticut. "They made it easier for the FOMC to make some moves for stimulus when they meet next week. We may see some volatile days before they make their announcement Thursday." Crude for October delivery rose 89 cents to $96.42 a barrel on the New York Mercantile Exchange, the highest settlement in a week. Futures dropped 5 cents this week and are down 2.4 percent this year. They have advanced 24 percent from the year's low of $77.69 a barrel on June 28. Brent oil for October settlement increased 76 cents, or 0.8 percent, to end the session at $114.25 a barrel on the London- based ICE Futures Europe exchange.

3. U.S. GAS:FUTURES SLUMP TO LOWEST IN WEEK AS TEMPS LOOK SET TO FALL

- --Futures at lowest in more than a week on cooling temperatures, inventory overhang
- --Market glitch halts trading for one hour
- --Below-normal temperatures seen in Midwest

Dow Jones

NEW YORK--Natural gas futures slumped to their lowest level in more than a week Friday, as traders weighed a growing glut of natural gas and falling temperatures likely to curb demand. Meanwhile, trading was upended after a technical glitch halted natural gas futures and options trading on the New York Mercantile Exchange for about an hour, the latest electronic hiccup to disrupt trading on a major market. Natural gas for October delivery settled 9.4 cents, or 3.4%, lower at $2.682 per million British thermal units on the New York Mercantile Exchange. That's the lowest settlement since Aug. 29. Futures slumped for a third straight session in the wake of a report from the Energy Information Administration that gas held in storage rose 28 billion cubic feet last week to 3.402 trillion cubic feet, a record high for the end of August. The figure was smaller than usual for the week, due in large part to supply disruptions in the Gulf of Mexico, though traders expect the supply to quickly come back online. Meanwhile, weather forecasts called for below-normal temperatures in parts of the Midwest in the coming week, meaning slackening demand for cooling and reduced consumption of natural gas from utilities.

4. SHALE BOOM CUTS GULF OIL PREMIUM TO 24-YEAR LOW: ENERGY MARKETS

By Dan Murtaugh
Bloomberg
Sep 7, 2012

The U.S. shale boom has driven the cost of Gulf Coast light, sweet oil to its lowest level versus Brent crude in almost a quarter century as the nation's dependence on foreign supplies wanes. Light Louisiana Sweet, the benchmark grade for the Gulf Coast known as LLS, has traded on the spot market at an average of 15 cents a barrel more than Brent this year, the smallest premium since at least 1988, data compiled by Bloomberg show. The spread's highest annual average was $4.02 in 2008. The drop has cut costs for refiners in Texas and Louisiana accounting for 45 percent of U.S. capacity and replaced competing shipments from Africa. Gulf imports of light, sweet crude have fallen 56 percent since 2010, according to U.S. Energy Department data. A shale-oil influx from the Eagle Ford formation in Texas and Bakken in North Dakota and new ways to bring crude to the Gulf, such as this year's reversal of the Seaway pipeline, may accelerate the shift. "The market dynamics are changing," Edward L. Morse, head of commodities research at Citigroup Global Markets in New York, said in a telephone interview. "When the Gulf Coast was a crude importer, they had to attract crude from elsewhere in the world, which meant LLS had to be at a premium to Brent. But now we're moving into a totally different situation."

5. SHELL MAY BID IN IRAQ'S NEXT OIL AUCTION IF TERMS IMPROVE

By Alexis Flynn
Dow Jones

LONDON--Royal Dutch Shell PLC (RDSB) is considering taking part in Iraq's next auction of oil exploration rights, provided the opportunities on offer are sufficiently lucrative. Iraq has said it will provide better incentives to foreign oil and gas firms than it did in a previous tender in May. Not one Western major made a bid in that round, with only a handful of the 12 unexplored plots up for grabs awarded, mostly to smaller independent firms. "The license terms have to be attractive and they have to be competitive," said Mark Carne, Shell's executive vice president for the Middle East and North Africa. "We have to decide where to best use our human resources and our financial capital on a global basis, so we will bid for licenses in those places that are competitive and, if they're not competitive, then we will use our resources elsewhere." Shell already has a sizeable portfolio in Iraq and has emerged as one of the biggest post-war investors in the country. The Anglo-Dutch major is developing the huge Majnoon field and recently signed an agreement worth $17.2 billion to capture and process natural gas flared from southern Iraq's giant oil fields. Iraq has proven reserves of 143.1 billion barrels of oil and 3.2 trillion cubic meters of gas, both of which are among the highest such deposits in the world.

6. SAUDI OIL WELL DRIES UP

By **Ambrose Evans-Pritchard**
Telegraph
September 5th, 2012

If Citigroup is right, Saudi Arabia will cease to be an oil exporter by 2030, far sooner than previously thought. A 150-page report by Heidy Rehman on the Saudi petrochemical industry should be sober reading for those who think that shale oil and gas have solved our global energy crunch. I don't wish to knock shale. It is a Godsend and should be encouraged with utmost vigour and dispatch in Britain. But it is for now plugging holes in global supply rather than covering the future shortfall as the industrial revolutions of Asia mature. The basic point – common to other Gulf oil producers – is that Saudi local consumption is rocketing. Residential use makes up 50pc of demand, and over two thirds of that is air-conditioning. The Saudis also consume 250 litres per head per day of water – the world's third highest (which blows the mind), growing at 9pc a year – and most of this is provided from energy-guzzling desalination plants. All this is made far worse across the Gulf by fuel subsidies to placate restive populations. The Saudis already consume a quarter of their 11.1m barrels a day of crude output. They are using more per capita than the US even though their industrial base as a share of GDP is much smaller.

7. NIGERIA HAS FORMER MILITANTS GUARDING OIL INSTALLATIONS

ABUJA, Nigeria, Sept. 7 (UPI) -- ABUJA, Nigeria, Sept. 7 (UPI) -- Nigeria has hired former militants to provide pipeline security in the country's troubled Niger delta. In the past year the Nigerian National Petroleum Corp. has paid former Movement for the Emancipation of the Niger Delta members about $43.7 million to guard its oil pipeline network. The payments are disbursed under the Nigerian federal government's amnesty program instituted under President Umaru Musa Yar'Adua in June 2009. In setting out the terms of the amnesty Yar'Adua, who died in May 2010, said the program implied those seeking amnesty give up illegal arms and renounce militancy "in all its ramifications." "It is my fervent hope that all militants in the Niger Delta will take advantage of this amnesty and come out to join in the quest for the transformation of our dear nation," Yar'Adua said. Recent reports note that in the past 12 months oil thefts from pipelines have been rising, with Nigeria losing roughly 10 percent of its daily crude production to thieves in the Niger Delta region. Shell, the leading oil producer in the Niger Delta, said 150,000 barrels of Nigeria's crude production are stolen each day, more than Ghana's daily output, and in May, oil theft from a pipeline got so bad that Shell shut it down, The Daily Trust newspaper reported.

8. NATIONALIZED YPF DRAWS RUSSIAN INVESTOR

BUENOS AIRES, Sept. 7 (UPI) -- BUENOS AIRES, Sept. 7 (UPI) -- Argentina's nationalized YPF energy company is pursuing talks with Russia's Gazprom to forge a partnership and secure needed cash investment in the company. Argentina nationalized YPF in May, alleging its principal shareholder Repsol of Spain wasn't reinvesting enough earnings in the company, affecting its performance and output. The state takeover has created tensions in Argentina's ties with the European Union, which has warned Buenos Aires faces wide-ranging punitive action, include trade curbs. U.S. officials said the seizure of Repsol's assets compounded Argentina's problems, including its attempts at finance rehabilitation since its 2002 sovereign default. Argentina approached Russia with partnership proposals after failing to win investor interest in other countries that don't want to offend Spain or Repsol S.A., one of the largest energy companies. Argentine President Cristina Fernandez de Kirchner and Russian President Vladimir Putin met at the Group of 20 summit in Mexico in June. Other than Russia, Argentina has had enthusiastic offers of partnership from Venezuela's state company PDVSA. YPF is also pursuing talks with China on potential collaboration.

9. TEXAS RAISES SPEED LIMIT TO 85 MPH ON BUSY HIGHWAY CAPTION

By Ricardo B.Brazziell
AP

Texas will soon open a stretch of highway with the highest speed limit in the country, giving eager drivers a chance to rip through a trip between two of the state's largest metropolitan areas. The Texas Transportation Commission has approved a speed limit of 85 miles per hour for a 41-mile toll road several miles east of the increasingly crowded Interstate 35 corridor between Austin and San Antonio. "I would love it," Austin resident Alan Guckian said. "Sometimes it's fun to just open it up." But while some drivers will want to test their horsepower and radar detectors, others are asking if safety is taking a backseat. "The research is clear that when speed limits go up, fatalities go up," said Russ Rader, a spokesman for the non-profit Insurance Institute for Highway Safety. He said higher speed limits get people to their destinations faster, "but the trade-off is more crashes and more highway deaths." A 2009 report in the American Journal of Public Health studied traffic fatalities in the U.S. from 1995 to 2005 and found that more than 12,500 deaths were attributable to increases in speed limits on all kinds of roads.

10. U.S. GOVT: 36% OF U.S. GULF OIL PRODUCTION SHUT IN AFTER ISAAC

Dow Jones

The U.S. Gulf Coast's energy producers continued to redeploy employees to their offshore energy platforms Friday as the effects of Hurricane Isaac recede. More than a third of all oil production in the U.S. Gulf of Mexico's federal waters remained offline, however. Production of 501,683 barrels of oil a day, or 36.4% of the region's total, was shut in, down from 43% Thursday, the U.S. Bureau of Safety and Environmental Enforcement said Friday. Offshore natural gas outages decreased to 847.3 million cubic feet a day, or 19.4% of the region's normal production, down from 21% Thursday. Six production platforms and one rig remained evacuated as of mid-Friday, the BSEE said. Chevron Corp. (CVX) Friday said it was sending employees back to its production platforms in the Gulf of Mexico. Chevron and other oil and gas producers have been restarting their offshore operations during the past week after shutting them down in anticipation of Isaac, which reached hurricane status before making landfall in southeast Louisiana early last week.

11. US CAN MAINTAIN OIL GROWTH - CREDIT SUISSE

07 Sep 2012 11:37 GMT

London, 7 September (Argus) - The US can maintain oil production growth at around 600,000 b/d because of shale development, the Gulf of Mexico and, potentially, the Arctic, but requires a near-term oil price of $95/bl for Brent, according to Switzerland-based bank Credit Suisse. The required price could drop to $80/bl over time. US growth is seen accounting for 80pc of the global net gain in production capacity but, under the bank's model, that still leaves global spare capacity at just 2-3pc in 2015. But a key uncertainty in Credit Suisse's models is decline rates for shale oil fields, the bank said. The recovery rate for shale oil is lower than for shale gas, indicating that many more wells will have to be drilled for oil relative to gas. Early rates of decline on Bakken and Eagle Ford wells can reach 50-70pc. Accommodating a forecast 600,000 b/d a year of US oil growth, plus 300,000 b/d a year of Canadian growth by 2017 will require new trunk lines. The bank sees the WTI-LLS spread staying wide through the first half of 2013. It sees a discount for Bakken and Canadian heavy crude remaining through the second half of 2014. In theory, the oil price requirement for shale wells in the US is $50-75/bl, according to Credit Suisse. But funding upfront capital costs pushes this higher.

12. SHELL: OFFSHORE ALASKA DRILLING LIKELY TO BEGIN THIS WEEKEND

Angel Gonzalez
Rigzon
9/7/2012

Royal Dutch Shell PLC's U.S. unit said Friday drilling in Alaska's Arctic offshore will likely begin over the coming weekend, after a drillship sets down anchor over the first oil-and-gas prospect targeted by the Anglo-Dutch oil company in the Chukchi Sea. The drillship, Noble Corp.'s Noble Discoverer (mid-water drillship), is in the process of mooring its eight anchors on the seafloor, a Shell spokeswoman said. Once operations start, the vessel's crew will drill the top portion of an oil well. The company also said it would test an oil-spill-containment system during the weekend. Shell's six-year-long campaign to open up vast oil riches off Alaska's coast has been delayed by environmental lawsuits, cautious regulators and bad weather, including persistent ice. The company has only a few weeks to conduct its plans, focused on drilling the top part of several wells, before the summer drilling season is over.

13. REFINERY STATUS: TRAINER REFINERY TO BE RUNNING BY END OF SEPT.

Dow Jones

The following table lists unplanned and planned production outages at U.S. refineries as reported by Dow Jones Newswire's. The information is compiled from both official and unofficial refining sources and doesn't purport to be a comprehensive list. Delta Airlines (DAL) said Sept. 6 that the 185,000 barrel-a-day Trainer refinery in Pennsylvania will be operational by the end of September. BP PLC (BP) restarted the ultracker at its 400,780 barrel-a-day refinery in Texas City, according to a government filing Sept. 6. The company did not say when the unit went out. A company spokesman did not immediately respond to a request for comment. Phillips 66 (PSX) said Sept. 6 that power was restored to the Alliance Refinery in Belle Chasse, La. and workers are in the process of restarting the 247,000 barrel-a-day is in facility following Hurricane Isaac. The company said it expects the refinery "will be operating by mid-month." Valero Energy Corp. (VLO) Chief Executive Bill Klesse said work on a diesel-making unit at the company's St. Charles refinery in Norco, La., is now likely to be completed in early 2013, rather than later this year as the company had previously estimated, in part due to Hurricane Isaac. The unit is still on track to be operational in the second quarter of 2013.

14. HIGH STORAGE MASKING 'FUNDAMENTALLY BALANCED' US NATURAL GAS MARKET: FBR

Platts
September 8, 2012

The record amount of US natural gas in storage is masking a "fundamentally balanced" gas market this year and one that will be under-supplied in 2013 and 2014, FBR Capital's natural gas analyst said Friday. "We estimate that the natural gas market is fundamentally balanced this year and [will be] under-supplied by 1.5 Bcf/d during 2013," FBR's Rehan Rashid said in a note to clients. "However, current excess storage will continue to act as a headwind for near-term sustained price recovery as we estimate storage levels will take until the end of next year to decline to normal levels." Not only will the market be slightly under-supplied next year, but if rig counts don't increase in 2013, then 2014 could be a year of record low storage, Rashid said. "Without a significant increase in rig count during 2013, the market in 2014 could be under-supplied by 3.2 Bcf/d and cause storage to end 2014 at ultra low levels," he said. Rashid said the 2014 injection season might end with only 1.8 Tcf in storage. Production response lags the markets price signal by as much as a year when prices are low or falling, Rashid said. When prices are increasing, producers still lag by six to nine months, he added.

15. IS FRACKING GOOD FOR THE ENVIRONMENT?

By Kevin Drum
Mother Jones
Fri Sep. 7, 2012 3:00 AM PDT

Is increased production of natural gas from shale deposits good for the environment? At first glance, yes: natural gas releases less CO2 into the atmosphere than coal, so replacing coal-fired electrical plants with gas-fired plants is a win for global warming. And since fracking makes natural gas cheaper, it helps stimulate a switch from coal to gas. Also read aboutObama's new rules for fracking, see ournatural gas timeline, and watch a music video that explains just what the frack fracking is. But wait: It turns out you also have to account for leakage. The problem is that natural gas is methane, a powerful greenhouse gas in its own right, and when you extract natural gas from shale formations, some of it inevitably leaks out. That's decidedly badfor global warming. But David McCabe, an atmospheric scientist at the Clean Air Task Force, reports that the news is fairly good on this front: "From the best of the collective work, we believe that burning natural gas for electricity produces about 30-50% less greenhouse gas than burning coal, even accounting for the emissions of methane (and carbon dioxide) from producing and transporting the natural gas."

16. TESTS SHOW OIL FOUND ON LOUISIANA SHORE CAME FROM BP SPILL

By the CNN Wire Staff
September 7, 2012 -- Updated 0157 GMT (0957 HKT)

(CNN) -- Preliminary lab results show two oil samples taken on the Louisiana coast are from BP's 2010 Gulf spill, state officials said Thursday. The oil was discovered on Elmer's Island, said spokeswoman Olivia Watkins of the state Coastal Protection and Restoration Authority. "There are additional samples in the testing pipeline. However, the proximity of these other oil mats is very close to those that tested positive for BP oil," she told CNN in an e-mail. Samples also are being taken at other locations on the coast, according to Watkins. In the wake of Hurricane Isaac, state officials reported tar balls and a large oil mat along the Gulf shore south of New Orleans. It's not clear whether the hurricane swept tar balls ashore or exposed them under the sand, U.S. Coast Guard Petty Officer Bill Colclough said. The U.S. Coast Guard reported finding three oiled birds in the area on Monday. BP said Wednesday it was heading to the coast to test whether tar balls and oil are from the 2010 spill.

17. U.S. COULD WORK WITH INDUSTRY ON FRACKING

WASHINGTON, Sept. 7 (UPI) -- WASHINGTON, Sept. 7 (UPI) -- The U.S. government said it could work with the energy industry to develop safety regulations regarding hydraulic fracturing of natural gas deposits. Heather Zichal, deputy adviser on energy and climate change at the Bureau of Land Management, said the agency was focused on developing regulations to address the chemical makeup of the fluids used to coax natural gas from shale deposits. "There is a way to do that with industry support," she was quoted by the Platts news service as saying. "That is what we are focused on." A boom in shale natural gas exploration in the United States sparked concerns about the safety of techniques used for extraction. Chemicals used in the process dubbed fracking, or hydraulic fracturing, are potential sources of groundwater contamination. Analysis of deep monitoring wells in the Wyoming aquifer by the Environmental Protection Agency last year indicated levels of glycols and other synthetic chemicals associated with fracking fluid "well above" standards that are considered safe for drinking water.

18. EPA EXTENDS TEMPORARY FUEL WAIVER TO MORE STATES

Oil and Gas Journal

The US Environmental Protection Agency cited disruptions to Gulf Coast refineries from Hurricane Isaac as it extended a temporary fuel waiver it previously granted to parts of Louisiana to seven other states. EPA extended the temporary waiver on Sept. 5 to Mississippi, Alabama, Georgia, Florida, Tennessee, South Carolina, and North Carolina after Administrator Lisa P. Jackson determined that extreme and unusual circumstances could result in temporary shortages of gasoline, which complies with federal regulations. The move, coordinated with the US Department of Energy, also was a response to governorsâ€(tm) requests, it added. It said the waiver applies to so-called â€œsummertimeâ€• gasoline with a low Reid vapor pressure (RVP) for the rest of a seasonal high-ozone period that ends Sept. 15. Supplies of higher RVP â€œwintertimeâ€• gasoline now may be used in those states until that time to prevent shortages, EPA said.

19. AS COOLANT IS PHASED OUT, SMUGGLERS REAP LARGE PROFITS

By Elisabeth Rosenthal And Andrew W. Lehren
The New York Times

MIAMI - The chief executive of the century-old company from America's heartland shifted nervously on the witness stand here as he tried to explain how a trusted senior vice president had been caught on a wiretap buying half a million dollars in smuggled merchandise, much of it from China. But the contraband purchased by Marcone, a St. Louis-based company that claims to be the nation's largest authorized source for appliance parts, was not counterfeit handbags or fake medicines. It was a colorless gas that provides the chill for air-conditioners from Miami to Mumbai, from Bogotá to Beijing. Under an international treaty, the gas, HCFC-22, has been phased out of new equipment in the industrialized world because it damages the earth's ozone layer and contributes toglobal warming. There are strict limits on how much can be imported or sold in the United States by American manufacturers. But the gas is still produced in enormous volumes and sold cheaply in China, India and Mexico, among other places in the developing world, making it a profitable if unlikely commodity for international smugglers.

20. US DRILLING RIG COUNT SLIDES 30 UNITS TO 1,864

Oil and Gas Journal

The US rig count slid by 30 units during the week ended Sept. 7, with the total number of rotary rigs in the US reaching 1,864 this week, as reported by Baker Hughes Inc. This compares with 1,958 rigs working in the comparable week last year. Land drilling suffered all of this loss, with operations down 31 units from a week ago, reaching 1,794 rigs. There were 19 rigs drilling in inland waters, up 1 unit from last week. Of the total, 51 rigs were drilling offshore, unchanged from a week ago. Of these rigs, 50 were drilling in the Gulf of Mexico, up 1 rig from last week. Of the recent weeks total, oil rigs were down by 10 units from the previous week, reaching 1,409. Gas rigs decreased as well, down 21 units to 452 rigs working. Three active rotaries were unclassified, an increase of 1 unit from a week ago. Rigs drilling directionally were reported at 214, down 5 units from a week ago and 21 fewer than the same week last year. The number of rigs drilling horizontally decreased by 14 units to 1,135 compared with 1,134 in the comparable week a year ago.

21. WHY I AM CANADIAN FOR THE GREAT BEAR

Posted by Jeff Rubin
September 6th, 2012

I've just returned from one of my favourite pastimes-salmon fishing off the west coast of British Columbia. But even in the remote Kyuquot Sound region, off the grid and far away from the news, it's hard to get away from conversations about the proposed Northern Gateway pipeline that would bring a never-ending stream of tanker traffic to the region. Although the particular coastline of Vancouver Island I was fishing this summer is not directly on the proposed tanker route, any sizeable oil spill along the north coast of British Columbia would have consequences here as well. But the most devastating impact would be in the Great Bear region itself. It was only two years ago that my son Jack and I had an opportunity to fish on Princess Royal Island, and witness the wonder of 300-foot trees in one of the world's last remaining coastal rainforests, shrouded in primeval mists. Of course no one has to tell me why Alberta, and its huge oil sands industry, is so desperate to build the Northern Gateway pipeline. As I wrote in my blog over a year ago, ("Oil Price Spread Costing Canadian producers big bucks ," November 10, 2011), oil sands producers have been continually getting short-changed for their oil by refineries in Cushing, Oklahoma, where most of the product from the oil sands flows. At times the gap between West Texas Intermediate (WTI), the price at Cushing and world oil prices (Brent) has exceeded $20 a barrel.

22. AFTER HIGH NOTE FOR EURO PLAN, DISCORD EMERGES

By Steven Erlanger
The New York Times

PARIS — In the long euro crisis, there is almost always a sobering morning-after whenever European leaders appear to have made a major breakthrough. And so it went again on Friday. Greeted with initial fanfare by investors and economic officials, the unlimited bond-buying plan that the European Central Bank president, Mario Draghi, announced Thursday ran into immediate political problems in the crucial countries of Germany, Spain and Italy. In Germany, despite Chancellor Angela Merkel's support for Mr. Draghi and the independence of the Central Bank, political and news media reaction was scathing, with accusations that the bank, in seeking to stabilize the euro currency union, was subverting its mandate to fight inflation and forcing debt upon euro zone members. "A Black Day for the Euro," "Over the Red Line" and "Pandora's Box Opened Forever" were some of the German headlines, with the normally sympathetic Süddeutsche Zeitungheadlining an editorial: "The E.C.B. Rewards Mismanagement." Even the German Bundesbank, officially part of the European Central Bank, put out a statement commenting acidly that the plan was "financing governments by printing bank notes."

23. EUROPE FACING FURTHER DIESEL PRICE HIKES

Reuters
Friday, September 07 09:47:15

Europe may face soaring diesel prices this autumn after a string of refinery accidents ahead of routine closures have tightened fuel supplies worldwide, sounding alarm bells in Western governments. The United States is pressing for a release of oil stocks from Western nations, supervised by the International Energy Agency. The reluctant IEA has stressed that the problem is not with crude supply, but with the flow of products from refineries, as wholesale fuel prices in Asian markets have already hit four-year highs.. It is a similar picture in Europe, where ICE diesel futures have risen from around $827 a tonne in June to almost $1,030 a tonne in September, hindering economic recovery. Europe does not produce enough diesel for its own needs and historically has relied on imports to fill the gap, but traders are worried it will face a supply crunch this autumn. The market has been tightening rapidly since July after the UK's Coryton refinery closed for good. Demand for gasoil, a category which includes both diesel and heating oil, has remained resilient. "Demand is stronger than economic prognosis indicates. There's a global trough in refining throughput which is extremely bullish for distillates," said Seth Kleinman, head of energy strategy at Citigroup. With gasoil refining margins reaching unseasonal highs of almost $20 a barrel in August, European refiners have increased runs, but they are not able to produce all the diesel that Europe needs. Now the market is tightening further due to lower imports from Asia and the United States following major U.S. refinery outages, including a fire at a Chevron refinery in California and the temporary closure of Lousiana refineries during Hurricane Isaac.

24. FRANCE COMMITTED TO CLOSING ITS OLDEST NUCLEAR REACTOR BY 2017

By RFI
France
2012-09-07 13:30

The French Energy Minister says the government is committed to closing the country's oldest nuclear reactor by 2017. Two people were burnt in an accident there earlier this week. On Wednesday, a steam leak injured two workers at the Fessenheim plant in eastern France, near the Swiss and German borders. Speaking on the French radio station France Info, the Ecology and Energy Minister, Delphine Batho, said: "Fessenheim will be closed as soon as possible in socially and technically responsible conditions." "Nuclear plants are being phased out across the world in coming years and this is an industrial issue for France," she said. France, the world's most nuclear-dependent country, operates 58 reactors and has been a leading international proponent of atomic energy. But in a deal with the Greens before this year's parliamentary and presidential elections, President Francois Hollande's Socialist party promised to reduce reliance on nuclear energy from more than 75 percent to 50 percent by shutting 24 reactors by 2025. Hollande had also pledged to close Fessenheim by 2017.

Discussion and Analysis

25. HAS OPEC MISLED US ABOUT THE SIZE OF ITS OIL RESERVES? DOES IT MATTER?

by Kurt Cobb
Resource Insights

Has OPEC misled us about the size of its oil reserves? The short answer is probably. The long answer is that currently, there is no way to know for sure. The next question we should ask is: Does it matter? The answer is most definitely yes. OPEC, short for theOrganization of Petroleum Exporting Countries, currently claims that its 12 members hold 81.3 percent of the world's oil reserves. And, with few exceptions the world believes them. Trouble is these reserves "are not verified by independent auditors," according to a study (PDF) done by the U.S. Government Accountability Office, the nonpartisan investigative arm of the U.S. Congress. OPEC reserves are simply self-reported by each country. Essentially, OPEC's members are asking us to take their word for it. But should we? It ought to give us pause that the reserve numbers OPEC countries release are used in major reports produced by the U.S. Energy Information Administration (EIA); the Paris-based International Energy Agency (IEA), a consortium of 28 of the world's oil importing nations; oil giant BP which annually publishes the widely cited BP Statistical Review of World Energy; and myriad other organizations. Reports from the two agencies cited above and BP are frequently consulted by governments, industry, banks and investors around the world for policy formulation, long-term planning, and lending and investment decisions. Yet these groups seem blissfully unaware of the caveats surrounding the numbers in those reports and by extension surrounding more than 80 percent of the world's oil reserves.

Alternatives

26. OREGON POISED FOR WAVE ENERGY

REEDSPORT, Ore., Sept. 7 (UPI) -- REEDSPORT, Ore., Sept. 7 (UPI) -- The United States' first commercially licensed grid-connected wave energy device is in its final stage of testing before its scheduled launch next month in Oregon. The 40-foot-wide, 260-ton PowerBuoy, developed by New Jersey company Ocean Power Technologies, will extend more than 100 feet into the sea and rise another 30 feet from the surface, The Oregonian newspaper reports. Part of the buoy's structure is designed to move like a piston to generate the charge. From its anchorage site 2.5 miles offshore near Reedsport, Ore., the buoy will send electricity to shore via an ocean-bottom cable. "Wave energy is essentially an accumulation of wind energy," Charles F. Dunleavy, chief executive of Ocean Power Technologies, told The New York Times, explaining that in the Northern Pacific, winds cause consistent waves and create a large area of wave energy, or fetch, for the massive buoy to capture. Last month, OPT received a federal permit for the deployment of up to 10 wave energy devices, which the company says is enough to generate electricity for approximately 1,000 homes.

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1. OIL RISES AS JOBS DATA REINFORCES STIMULUS HOPES

Fri, Sep 7 2012

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Brent and U.S. crude futures posted small weekly losses, after five straight weekly gains and a surge of more than 9 percent in August.

U.S. nonfarm payrolls increased by only 96,000 last month, the Labor Department said on Friday, below the forecasted rise of 125,000. While the unemployment rate dropped to 8.1 percent from 8.3 percent in July, it was largely due to Americans giving up the search for employment.

Oil prices received a lift from expectations that the jobs report increases the likelihood that the U.S. Federal Reserve's two-day policy meeting next week will result in a third round of monetary stimulus, known as quantitative easing or QE3.

Additional stimulus is expected to weaken the dollar, which is usually supportive to dollar-denominated commodities like oil. The dollar was broadly weaker on Friday, with the dollar index .DXY down nearly 1.0 percent, with the U.S. currency dropping to a near four-month low against the euro. <USD/>

Brent October crude rose 76 cents to settle at $114.25 a barrel, having swung between $112.34 and $114.65.

For the week, Brent slipped 32 cents.

U.S. October crude rose 89 cents to settle at $96.42 a barrel, below the 200-day moving average of $96.62, after trading from $94.08 to $96.74 during the session.

For the week, U.S. crude lost only 5 cents.

Money managers raised their net long U.S. crude futures and options positions in the week to September 4, the Commodity Futures Trading Commission (CFTC) said on Friday.

U.S. RBOB gasoline futures rose nearly 1 percent. Even at the session high of $3.0541 a gallon, there was a significant gap still to be closed to reach $3.1056, where the September contract expired and went off the board last Friday.

U.S. heating oil futures rose, but only 0.2 percent.

"It was a decidedly negative report due to the meager number of jobs created in August and the downward revision for the two prior months," said John Kilduff, partner at Again Capital LLC in New York.

"However, the data are clearly disappointing enough to allow for a third round of quantitative easing, which lends support to commodity prices and would enable a run at $100 per barrel for (U.S.) crude," he added.

China's approval of a multibillion-dollar infrastructure program helped push key industrial feedstock copper, another dollar denominated commodity, to its highest price in nearly four months. <MET/L>

MULLING RESERVES RELEASE

The possibility that strategic oil reserves may be released by the United States and other major oil consumer governments hemmed in oil prices, after U.S. government officials met oil market experts on Thursday as the White House considers the merits of another release.

While oil companies work to restore energy operations on the U.S. Gulf Coast after Hurricane Isaac, the government's report on Wednesday showed domestic crude oil stockpiles, excluding the SPR, fell 7.43 million barrels in the week to August 31. <EIA/S>

U.S. regulators said 36.35 percent of daily oil production in U.S.-regulated areas of the Gulf of Mexico remained shut on Friday, an improvement of 6.63 percentage points from Thursday.

MIDDLE EAST UNCERTAINTY

The threat persists that violence in the Middle East could escalate and disrupt flows of oil from the region.

A blast outside a mosque in Syria's capital on Friday killed five security personnel and wounded others.

Britain, France and Germany called on their European Union partners on Friday to impose new sanctions against Iran over its nuclear program.

The EU's embargo on Iranian crude is in its third month.

Canada suspended diplomatic relations with Iran, closing its embassy in Tehran and giving Iranian diplomats in Canada five days to leave the country, Foreign Minister John Baird said, calling Iran the biggest threat to global security.

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2. OIL RISES AS JOBS REPORT STOKES STIMULUS SPECULATION

By Moming Zhou and Mark Shenk
Bloomberg
Sep 7, 2012

Oil advanced for a third day as U.S. payrolls increased less than expected in August, raising speculation that the Federal Reserve will boost stimulus measures to spur economic growth.

Prices gained 0.9 percent after the Labor Department reported the economy added 96,000 workers last month, less than the 130,000 median estimate in a Bloomberg survey of economists. The Federal Open Market Committee will meet Sept. 12-13 to discuss monetary policy.

"More than anything I think attention is focused on the employment numbers this morning, which were really bad," said Addison Armstrong, director of market research at Tradition Energy in Stamford, Connecticut. "They made it easier for the FOMC to make some moves for stimulus when they meet next week. We may see some volatile days before they make their announcement Thursday."

Crude for October delivery rose 89 cents to $96.42 a barrel on the New York Mercantile Exchange, the highest settlement in a week. Futures dropped 5 cents this week and are down 2.4 percent this year. They have advanced 24 percent from the year's low of $77.69 a barrel on June 28.

Brent oil for October settlement increased 76 cents, or 0.8 percent, to end the session at $114.25 a barrel on the London- based ICE Futures Europe exchange.

The lower-than-forecast employment growth will move the Fed closer to more quantitative easing, Pacific Investment Management Co.'s Bill Gross said. The Fed implemented two rounds of large-scale asset purchases totaling $2.3 trillion from December 2008 to June 2011.

Policy makers will give "strong hints" or provide "positive action" at the FOMC meeting, Gross, who runs the world's biggest bond fund, said in a radio interview on "Bloomberg Surveillance" with Tom Keene and Ken Prewitt.

Bernanke Comments

Fed Chairman Ben S. Bernanke said on Aug. 31 that he wouldn't rule out more stimulus to boost the economy. The European Central Bankagreed yesterday to an unlimited bond- purchase program.

"The odds of more stimulus measures are going up after the jobs report," said Phil Flynn, senior market analyst at the Price Futures Group in Chicago. "The Fed may join the ECB in more bond buying to try to stimulate the economy, and that's kind of pushing oil higher."

Last month's payroll growth followed a revised 141,000 rise in July that was smaller than initially estimated, the Labor Department figures said.

"That's about as bad as you can get," said Michael Lynch, president of Strategic Energy & Economic Research in Winchester, Massachusetts. "But people are thinking that the stimulus measures will get stronger."

Unemployment Slips

The unemployment rate unexpectedly fell to 8.1 percent in August as the share of the working-age population in the labor force slumped to the lowest level since 1981. The participation rate decreased to 63.5 percent from 63.7 percent.

Oil also advanced as the euro gained as much as 1.4 percent against the dollar on the Fed stimulus speculation. The currency rose to $1.2806, the highest level since May. A stronger euro and weaker dollar boost oil's appeal as an investment alternative.

Crude fell as much as 1.5 percent earlier on speculation that the White House is considering tapping the Strategic Petroleum Reserve.

A release may be more likely should Brent reach $120 a barrel, said a person with direct knowledge of a meeting yesterday that Obama administration officials held with outside crude-market experts. The administration hasn't made a decision on whether to release oil from the reserve, and there was no discussion of any deadline for a decision, the person said.

Release Odds

"The odds of an SPR release are increasing," said Stephen Schork, president of the Schork Group Inc. in Villanova, Pennsylvania. "The administration really has to do something to deflect what they are seeing now."

The Obama administration is continuing to look at all its options to make sure high oil prices don't crimp the global economy, Jay Carney, the White House press secretary, said Aug. 30 in response to a question at a briefing.

Electronic trading volume on the Nymex was 493,147 contracts as of 3:43 p.m. in New York. Volume totaled 710,388 contracts yesterday, 32 percent above the three-month average and the highest level since Aug. 15. Open interest was 1.56 million.

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3. U.S. GAS:FUTURES SLUMP TO LOWEST IN WEEK AS TEMPS LOOK SET TO FALL

- --Futures at lowest in more than a week on cooling temperatures, inventory overhang
- --Market glitch halts trading for one hour
- --Below-normal temperatures seen in Midwest

Dow Jones

NEW YORK--Natural gas futures slumped to their lowest level in more than a week Friday, as traders weighed a growing glut of natural gas and falling temperatures likely to curb demand.

Meanwhile, trading was upended after a technical glitch halted natural gas futures and options trading on the New York Mercantile Exchange for about an hour, the latest electronic hiccup to disrupt trading on a major market.

Natural gas for October delivery settled 9.4 cents, or 3.4%, lower at $2.682 per million British thermal units on the New York Mercantile Exchange. That's the lowest settlement since Aug. 29.

Futures slumped for a third straight session in the wake of a report from the Energy Information Administration that gas held in storage rose 28 billion cubic feet last week to 3.402 trillion cubic feet, a record high for the end of August. The figure was smaller than usual for the week, due in large part to supply disruptions in the Gulf of Mexico, though traders expect the supply to quickly come back online.

Meanwhile, weather forecasts called for below-normal temperatures in parts of the Midwest in the coming week, meaning slackening demand for cooling and reduced consumption of natural gas from utilities.

"Summer is basically over," said Kyle Cooper, managing partner at IAF Energy Advisors in Houston.

Natural gas demand typically rises in the summer as air-conditioning use spurs utility demand, then sinks in the fall as demand slackens ahead of the peak winter heating season. The fall period, known as the "shoulder season," typically coincides with lower prices.

"The forecast in the weather implies a bit of demand destruction because the utilities won't need to run their generators at capacity," said Jason Williams, energy broker at Coquest, a brokerage in Dallas.

Separately, trading was disrupted after Nymex's Globex electronic platform--which handles the majority of the company's natural-gas futures trades--went down at 10:04 a.m. EDT due to what a spokesman called a "technical issue." The exchange declined to provide more information about the cause, but trading resumed as normal at 11 a.m. EDT with little apparent impact on prices.

The exchange said no completed trades were canceled, though some orders had to be re-entered. Trading on the Nymex floor continued as normal, though traders reported little volume.

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4. SHALE BOOM CUTS GULF OIL PREMIUM TO 24-YEAR LOW: ENERGY MARKETS

By Dan Murtaugh
Bloomberg
Sep 7, 2012

The U.S. shale boom has driven the cost of Gulf Coast light, sweet oil to its lowest level versus Brent crude in almost a quarter century as the nation's dependence on foreign supplies wanes.

Light Louisiana Sweet, the benchmark grade for the Gulf Coast known as LLS, has traded on the spot market at an average of 15 cents a barrel more than Brent this year, the smallest premium since at least 1988, data compiled by Bloomberg show. The spread's highest annual average was $4.02 in 2008.

The drop has cut costs for refiners in Texas and Louisiana accounting for 45 percent of U.S. capacity and replaced competing shipments from Africa. Gulf imports of light, sweet crude have fallen 56 percent since 2010, according to U.S. Energy Department data. A shale-oil influx from the Eagle Ford formation in Texas and Bakken in North Dakota and new ways to bring crude to the Gulf, such as this year's reversal of the Seaway pipeline, may accelerate the shift.

"The market dynamics are changing," Edward L. Morse, head of commodities research at Citigroup Global Markets in New York, said in a telephone interview. "When the Gulf Coast was a crude importer, they had to attract crude from elsewhere in the world, which meant LLS had to be at a premium to Brent. But now we're moving into a totally different situation."

Light Louisiana Sweet, a grade prized because its low- sulfur content and density make it easier to process into fuels such as gasoline, was 92 cents cheaper than Brent yesterday. It averaged 20 cents less than the benchmark in the third quarter.

Brent oil for October settlement rose 40 cents, or 0.4 percent, to $113.49 a barrel yesterday on the London-based ICE Futures Europe exchange. The contract advanced 89 cents, or 0.8 percent, to $114.38 a barrel at 8:42 a.m. in New York.

Energy Independence

U.S. oil output surged to the highest level in 13 years in July, according to weekly Energy Department data. The U.S. met 83 percent of its energy demand from domestic sources in the first five months of this year and is heading for the highest annual level since 1991, department figures compiled by Bloomberg show.

"Unconventional oils and gas are changing everything about our competitiveness in the United States," Bill Klesse, Valero Energy Corp.'s chief executive officer, said yesterday at the Barclays CEO Energy/Power Conference in New York. "Before you know it, we're going to have so much light, sweet crude that in the U.S. Gulf Coast we're not going to be importing light, sweet crude, and we think that happens next year."

Houston, New Orleans and other ports along the Gulf Coast accepted about 554,000 barrels a day of light, sweet oil from outside the U.S. in June, down from 964,000 barrels a day in June 2011 and about 1.25 million in June 2010, according to the Energy Department's Energy Information Administration.

African Imports

The West African nations of Nigeria, Angola, Gabon and Equatorial Guinea accounted for 58 percent of the light, sweet crude imported into Gulf Coast ports in June 2012. North African nations accounted for a further 30 percent.

LLS will become about $5 a barrel cheaper than Brent during the next 12 months, David Pursell, a Houston-based managing director for Tudor, Pickering, Holt & Co., said in a telephone interview. The discount would take into account the extra cost of getting LLS to other customers, such as refiners on the East Coast, Pursell said.

Like oil in the Midcontinent, the relationship between LLS and Brent has been upended by surging shale production. West Texas Intermediate oil at Cushing, Oklahoma, the U.S. benchmark grade traded on the New York Mercantile Exchange, shifted to a discount to Brent almost two years ago after trading at a premium for decades.

Midcontinent Glut

Cushing inventories surged to 47.8 million barrels in June, the highest level since Energy Department records for the hub began in 2004. The WTI-Brent spread reached a record $27.88 in October. It was at $18.03 a barrel today.

"Over the last year and a half, with the WTI-Brent spread blowing out, the primary beneficiaries have been the Midcontinent players," Cory Garcia, a Houston-based oil analyst for Raymond James & Associates, an arm of the financial-services company with almost $40 billion under management, said in a phone interview. "As LLS disconnects next year, the benefits to Gulf Coast refiners will be brought to the forefront."

Enbridge Inc. (ENB) and Enterprise Products Partners LP (EPD) reversed the flow of crude on the Seaway pipeline on May 19. The link, carrying as much as 150,000 barrels a day from Cushing to Gulf Coast refineries, is scheduled to pump as much as 400,000 barrels a day early next year.

Shale Production

About 300,000 barrels a day of Bakken oil is being shipped from North Dakota by rail, Al Monaco, Enbridge Inc.'s president, said in a July 11 presentation in Calgary. Some rail deliveries of Bakken are reaching Texas and Louisiana, Lee Klaskow, a Skillman, New Jersey-based analyst for Bloomberg Industries Research, said.

The Bakken formation, which stretches across parts of North Dakota, Montana and Saskatchewan, and the Eagle Ford formation in south Texas produce the majority of shale oil in the U.S., ahead of formations such as Niobrara in Wyoming and Colorado, Bone Spring in Texas and New Mexico and Monterey in California.

Eagle Ford produced about 283,000 barrels a day this June, up from about 98,000 barrels a day in June 2011 and no barrels in April 2008, according to the Railroad Commission of Texas, the state's oil and gas regulator.

Getting to Market

"We have all these sweet barrels in the Midwest that need to find a home, and they're getting to the market by planes, trains and automobiles, you name it," said Stephen Schork, president of the Schork Group Inc. in Villanova, Pennsylvania. "You compound that with increased production in west Texas and the Eagle Ford, and you have a template for LLS to move to a discount."

The capacity to transport light, sweet oil to the Gulf Coast from Cushing and inland shale formations will expand to more than 2 million barrels a day by the end of this year and 4.5 million by the end of 2014 from less than 500,000 barrels a day at the end of 2011, Klesse said yesterday.

Valero currently buys about 140,000 barrels of oil a day from Eagle Ford, said Bill Day, a San Antonio-based spokesman for the company. The crude is transported by truck to an unloading dock next to Valero (VLO)'s Three Rivers, Texas, refinery. About 70,000 barrels a day is fed to that refinery, and the remainder via recently reversed pipelines to plants in Corpus Christi and Houston.

The company brought two foreign oil shipments totaling 547,000 barrels of light, sweet crude to Gulf Coast ports in June, down from 4.88 million barrels in June 2010, data from the Energy Department showed.

Inflection Point

Companies such as Phillips 66 (PSX) are also rethinking long-term business plans because of cheaper domestic supply.

Phillips 66 Chief Executive Officer Greg Garland said Aug. 1 that the refiner had changed its mind about selling its Alliance plant in Louisiana in part because of forecasts that LLS will shift to a $2- or $3-a-barrel discount to Brent.

"In the interim year that passed since we first made that decision, our view has changed in terms of Gulf Coast crudes, particularly LLS, becoming an advantage," Garland said on a conference call with analysts and investors.

The shift in the U.S. market could have lasting repercussions on global markets as well.

Weaker Brent

A drop in U.S. imports of light, sweet oil could weaken Brent, Garcia said. Raymond James is forecasting $80 Brent next year, based predominantly on production growth in non-OPEC countries like the U.S., he said.

"People think that U.S. supply growth is sort of disconnected or irrelevant because it can't export, but it can back out imports and we believe that will have a significant impact on the global oil markets," Garcia said.

Federal law restricts exports of crude oil without permission from the president. The U.S. exported just 0.7 percent of domestic oil production in June, with none of it leaving from the Gulf Coast, Energy Department data show.

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5. SHELL MAY BID IN IRAQ'S NEXT OIL AUCTION IF TERMS IMPROVE

By Alexis Flynn
Dow Jones

LONDON--Royal Dutch Shell PLC (RDSB) is considering taking part in Iraq's next auction of oil exploration rights, provided the opportunities on offer are sufficiently lucrative.

Iraq has said it will provide better incentives to foreign oil and gas firms than it did in a previous tender in May. Not one Western major made a bid in that round, with only a handful of the 12 unexplored plots up for grabs awarded, mostly to smaller independent firms.

"The license terms have to be attractive and they have to be competitive," said Mark Carne, Shell's executive vice president for the Middle East and North Africa. "We have to decide where to best use our human resources and our financial capital on a global basis, so we will bid for licenses in those places that are competitive and, if they're not competitive, then we will use our resources elsewhere."

Shell already has a sizeable portfolio in Iraq and has emerged as one of the biggest post-war investors in the country. The Anglo-Dutch major is developing the huge Majnoon field and recently signed an agreement worth $17.2 billion to capture and process natural gas flared from southern Iraq's giant oil fields.

Iraq has proven reserves of 143.1 billion barrels of oil and 3.2 trillion cubic meters of gas, both of which are among the highest such deposits in the world.

Along with ramping up oil production, Iraq is keen to increase gas extraction to help boost its low levels of electricity output.

In the country's previous licensing auctions, Iraq has offered foreign firms so-called service contracts rather than a share in any resources they discover. Because service contracts only guarantee a flat fee per barrel of oil produced, companies have been reluctant to invest in exploring the undiscovered blocks without some assurance that they can recoup their costs and turn a profit.

"Every government, in a way, has the same dilemma," said Mr. Carne. "Every government wants to ensure that they get the largest possible slice of the pie for the national resource holder but, at the same time, they have to attract international investment because they need the expertise, technology and skills that international investment can bring."

Besides the tough remuneration fee in the last round, some bidders were put off by a new clause to the model contract that forbids oil companies from signing contracts with Iraq's semi autonomous northern region of Kurdistan, where petroleum is also plentiful. U.S. energy giant Exxon Mobil Corp. (XOM) was barred from taking part in the latest bidding round as punishment for signing deals with Kurdistan.

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6. SAUDI OIL WELL DRIES UP

By **Ambrose Evans-Pritchard**
Telegraph

Last updated: September 5th, 2012

If Citigroup is right, Saudi Arabia will cease to be an oil exporter by 2030, far sooner than previously thought.

A 150-page report by Heidy Rehman on the Saudi petrochemical industry should be sober reading for those who think that shale oil and gas have solved our global energy crunch.

I don't wish to knock shale. It is a Godsend and should be encouraged with utmost vigour and dispatch in Britain. But it is for now plugging holes in global supply rather than covering the future shortfall as the industrial revolutions of Asia mature.

The basic point – common to other Gulf oil producers – is that Saudi local consumption is rocketing. Residential use makes up 50pc of demand, and over two thirds of that is air-conditioning.

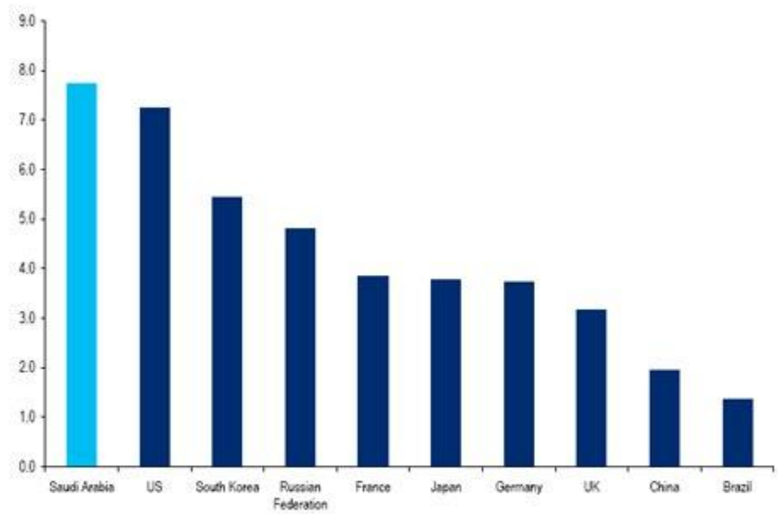
The Saudis also consume 250 litres per head per day of water – the world's third highest (which blows the mind), growing at 9pc a year – and most of this is provided from energy-guzzling desalination plants.

All this is made far worse across the Gulf by fuel subsidies to placate restive populations.

The Saudis already consume a quarter of their 11.1m barrels a day of crude output. They are using more per capita than the US even though their industrial base as a share of GDP is much smaller.

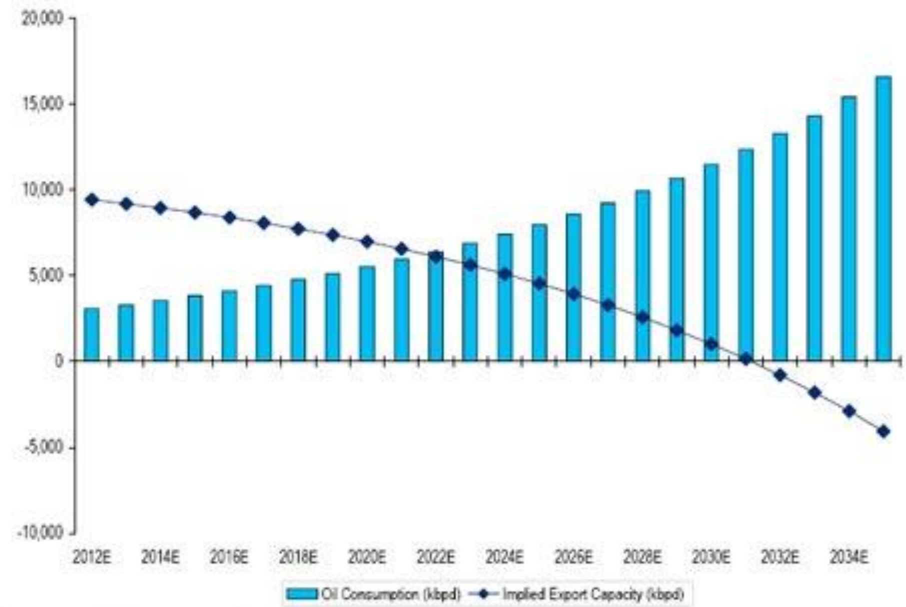
The country already consumes all its gas. (Neighbouring Kuwait is now importing LNG gas from Russia:

Figure 4. Selected Countries — Primary Energy Consumption per Capita (toe), 2011



Source: BP Statistical Review, UN & Citi Research

Figure 7. Sensitivity Analysis – Consumption Grows in Line with Peak Power Demand (kbpd)



Source: BP Statistical Review, UN & Citi Research

From Heidy Rehman at Citi:

• Saudi Arabia Could be an Oil Importer by ~2030 — Saudi Arabia is the world's largest oil producer (11.1mbpd) & exporter (7.7mbpd). It also consumes 25% of its production. Energy consumption per capita exceeds that of most industrial nations. Oil & its derivatives account for ~50% of Saudi's electricity production, used mostly (>50%) for residential use. Peak power demand is growing by ~8%/yr. Our analysis shows that if nothing changes Saudi may have no available oil for export by 2030.

• It Already Consumes All Its Gas Production — Saudi Arabia produces 9.6bn ft3/day of natural gas. This is entirely consumed domestically. It is looking to raise gas production to 15.5bn ft3/day by 2015E, implying a 2011-15E CAGR of 12.7%. However, peak power demand is growing at almost 8% pa. We believe Saudi Arabia will need to find new sources to meet residential & industrial demand.

This may concentrate a few minds in The Kingdom. The country is already planning an 80GW nuclear blitz though they are woefully short of nuclear power experts.

It has big hopes from solar projects based on successes of solar farms in California. Both nuclear and solar would allow it export more of its oil output.

A great deal could change. New desalination filters should reduce energy use drastically, for instance. Saudi fuel subsidy policies may change.

While I don't wish to judge the claims of this report – I merely pass it on to readers since I don't know enough about the Saudi system – but it is yet another piece of evidence pointing to Peak Cheap Oil.

Jeremy Leggett, the head of the UK Taskforce on Peak Oil and Energy Security, says Britain is sleepwalking into a potential disaster by failing to prepare fully for a global supply crunch.

The refusal to listen to warning signals is comparable to the complacency in the build-up to the financial crisis, he argues, but with graver implications for the British economy.

I agree.

[7. NIGERIA HAS FORMER MILITANTS GUARDING OIL INSTALLATIONS]

ABUJA, Nigeria, Sept. 7 (UPI) -- ABUJA, Nigeria, Sept. 7 (UPI) -- Nigeria has hired former militants to provide pipeline security in the country's troubled Niger delta.

In the past year the Nigerian National Petroleum Corp. has paid former Movement for the Emancipation of the Niger Delta members about $43.7 million to guard its oil pipeline network.

The payments are disbursed under the Nigerian federal government's amnesty program instituted under President Umaru Musa Yar'Adua in June 2009.

In setting out the terms of the amnesty Yar'Adua, who died in May 2010, said the program implied those seeking amnesty give up illegal arms and renounce militancy "in all its ramifications."

"It is my fervent hope that all militants in the Niger Delta will take advantage of this amnesty and come out to join in the quest for the transformation of our dear nation," Yar'Adua said.

Recent reports note that in the past 12 months oil thefts from pipelines have been rising, with Nigeria losing roughly 10 percent of its daily crude production to thieves in the Niger Delta region.

Shell, the leading oil producer in the Niger Delta, said 150,000 barrels of Nigeria's crude production are stolen each day, more than Ghana's daily output, and in May, oil theft from a pipeline got so bad that Shell shut it down, The Daily Trust newspaper reported.

Still, the overall situation has seen improvement in the longer term.

"We don't need to look far to see why it was needed and why (amnesty) was a necessary intervention," said Nigerian Vice Chairman of the Senate Committee on Niger Delta Affairs Sen. Nurudeen Abatemi-Usman.

"We were a basket case as a country ... Thank God the then-president, the late Umaru Musa Yar' Adua had the wisdom, foresight and understanding to recognize the need to make the amnesty offer to the Niger Delta militants at that time.

"If he hadn't at the time, only God knows what the situation would have been today."

Abatemi-Usman said before the program output in the Niger Delta was about 1 million barrels a day; since amnesty was offered, production has risen to 2.4 million barrels a day.

"Such (data) will naturally tell you that amnesty is the reason why things are looking stable and back to normal in the Niger Delta. It may not be a huge success, per se, but also it is not such an abysmal failure," he said.

[8. NATIONALIZED YPF DRAWS RUSSIAN INVESTOR]

BUENOS AIRES, Sept. 7 (UPI) -- BUENOS AIRES, Sept. 7 (UPI) -- Argentina's nationalized YPF energy company is pursuing talks with Russia's Gazprom to forge a partnership and secure needed cash investment in the company.

Argentina nationalized YPF in May, alleging its principal shareholder Repsol of Spain wasn't reinvesting enough earnings in the company, affecting its performance and output. The state takeover has created tensions in Argentina's ties with the European Union, which has warned Buenos Aires faces wide-ranging punitive action, include trade curbs.

U.S. officials said the seizure of Repsol's assets compounded Argentina's problems, including its attempts at finance rehabilitation since its 2002 sovereign default.

Argentina approached Russia with partnership proposals after failing to win investor interest in other countries that don't want to offend Spain or Repsol S.A., one of the largest energy companies.

Argentine President Cristina Fernandez de Kirchner and Russian President Vladimir Putin met at the Group of 20 summit in Mexico in June.

Other than Russia, Argentina has had enthusiastic offers of partnership from Venezuela's state company PDVSA. YPF is also pursuing talks with China on potential collaboration.

Russia is keen to enter Argentina's energy market after successful forays into Venezuela. Gazprom is exploring for natural gas in that country as part of a Russian consortium.

Gazprom's interest in Argentina as a potential market for its liquefied natural gas has grown as the market for its LNG in Europe has shrunk.

The biggest blow to LNG demand worldwide has been the rise of shale oil and gas as an alternative. Increasing shale gas production has dampened demand for LNG. Recent innovations in shale gas extraction, including non-hydraulic methods that reduce risks to underground water resources, have helped shale energy's recent ascendancy and lessened interest in LNG.

Gazprom is keen to exploit its installed LNG capacity and secure Argentina as a market. YPF is under increasing pressure from Fernandez to perform better than under Repsol management and to increase domestic energy output, including vast untapped shale resources.

Argentine LNG imports have risen while output of its own natural gas has fallen 15 percent over the past decade.

A key to current Argentine-Russian talks is the future of the Vaca Muerta shale site in Argentina's Neuquen province, which Buenos Aires wants developed with investor cash. About $25 billion will be required to develop the shale oil and gas resource to a commercially viable level.

Argentine officials say sufficient investment in Vaca Muerta would enable the country to double oil and gas production and cut dependence on imports within a decade.

Investors have been promised incentives for participation in the plan but some have balked and walked away, citing Argentina's takeover of YPF and linger effects of its sovereign default.

Canadian energy firm Americas Petrogas Inc. announced this week it completed a multistage fracturing of a shale formation under its license. The company plans to test the well, LTE.x-1 on the Los Toldos II block, which it operates and shares with ExxonMobil at 45 percent and Gas y Petroleo del Neuquen at 10 percent.

The Vaca Muerta site produces about 5,000 barrels per day of oil but is estimated to contain about 927 million barrels of oil equivalent.

Argentina country still cannot borrow freely in international capital markets because of continued concerns over its credit worthiness. Argentina's 2002 sovereign default reverberates through markets and the country is being pursued by past creditors.

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9. TEXAS RAISES SPEED LIMIT TO 85 MPH ON BUSY HIGHWAY CAPTION

By Ricardo B.Brazziell
AP

Texas will soon open a stretch of highway with the highest speed limit in the country, giving eager drivers a chance to rip through a trip between two of the state's largest metropolitan areas.

The Texas Transportation Commission has approved a speed limit of 85 miles per hour for a 41-mile toll road several miles east of the increasingly crowded Interstate 35 corridor between Austin and San Antonio.

"I would love it," Austin resident Alan Guckian said. "Sometimes it's fun to just open it up."

But while some drivers will want to test their horsepower and radar detectors, others are asking if safety is taking a backseat.

"The research is clear that when speed limits go up, fatalities go up," said Russ Rader, a spokesman for the non-profit Insurance Institute for Highway Safety. He said higher speed limits get people to their destinations faster, "but the trade-off is more crashes and more highway deaths."

A 2009 report in the American Journal of Public Health studied traffic fatalities in the U.S. from 1995 to 2005 and found that more than 12,500 deaths were attributable to increases in speed limits on all kinds of roads.

The study also said that rural highways showed a 9.1 percent increase in fatalities on roads where speed limits were raised, but did not cite specific numbers in those instances.

Most highways in the U.S. top out at 75 mph, and there are no longer any roads in the U.S. with no speed limit:

Some highways in rural West Texas and Utah have 80 mph speed limits.

The Texas Legislature last year approved 85 mph limits for some new stretches of road. The strip of toll road running from Austin to Seguin, about 35 miles northeast of San Antonio, will be the first to allow that speed when it opens in November.

The Texas Transportation Commission, which is appointed by Gov. Rick Perry, approved the 85 mph speed limit at a public meeting on Aug. 30. Commissioners would not comment on their decision.

The state contract with the toll operator allows the state to collect a $67 million up-front cash payment or a percentage of the toll profits in the future if the speed limit is 80 mph or lower. At 85 mph, the cash payment balloons to $100 million or a higher percentage of toll revenues.

--The Associated Press

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10. U.S. GOVT: 36% OF U.S. GULF OIL PRODUCTION SHUT IN AFTER ISAAC

Dow Jones

The U.S. Gulf Coast's energy producers continued to redeploy employees to their offshore energy platforms Friday as the effects of Hurricane Isaac recede.

More than a third of all oil production in the U.S. Gulf of Mexico's federal waters remained offline, however. Production of 501,683 barrels of oil a day, or 36.4% of the region's total, was shut in, down from 43% Thursday, the U.S. Bureau of Safety and Environmental Enforcement said Friday. Offshore natural gas outages decreased to 847.3 million cubic feet a day, or 19.4% of the region's normal production, down from 21% Thursday.

Six production platforms and one rig remained evacuated as of mid-Friday, the BSEE said.

Chevron Corp. (CVX) Friday said it was sending employees back to its production platforms in the Gulf of Mexico.

Chevron and other oil and gas producers have been restarting their offshore operations during the past week after shutting them down in anticipation of Isaac, which reached hurricane status before making landfall in southeast Louisiana early last week.

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11. US CAN MAINTAIN OIL GROWTH - CREDIT SUISSE

07 Sep 2012 11:37 GMT

London, 7 September (Argus) - The US can maintain oil production growth at around 600,000 b/d because of shale development, the Gulf of Mexico and, potentially, the Arctic, but requires a near-term oil price of $95/bl for Brent, according to Switzerland-based bank Credit Suisse.

The required price could drop to $80/bl over time. US growth is seen accounting for 80pc of the global net gain in production capacity but, under the bank's model, that still leaves global spare capacity at just 2-3pc in 2015.

But a key uncertainty in Credit Suisse's models is decline rates for shale oil fields, the bank said. The recovery rate for shale oil is lower than for shale gas, indicating that many more wells will have to be drilled for oil relative to gas. Early rates of decline on Bakken and Eagle Ford wells can reach 50-70pc.

Accommodating a forecast 600,000 b/d a year of US oil growth, plus 300,000 b/d a year of Canadian growth by 2017 will require new trunk lines. The bank sees the WTI-LLS spread staying wide through the first half of 2013. It sees a discount for Bakken and Canadian heavy crude remaining through the second half of 2014.

In theory, the oil price requirement for shale wells in the US is $50-75/bl, according to Credit Suisse. But funding upfront capital costs pushes this higher.

The bank's model would require $80bn/yr for shale oil. Adding in the spend on conventional oil, the industry would need to spend $160bn/yr to meet growth forecasts. That is equivalent to 30pc of the global upstream capital expenditure forecast for under 15pc of global production.

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12. SHELL: OFFSHORE ALASKA DRILLING LIKELY TO BEGIN THIS WEEKEND

Angel Gonzalez
Rigzon
9/7/2012

Royal Dutch Shell PLC's U.S. unit said Friday drilling in Alaska's Arctic offshore will likely begin over the coming weekend, after a drillship sets down anchor over the first oil-and-gas prospect targeted by the Anglo-Dutch oil company in the Chukchi Sea.

The drillship, Noble Corp.'s Noble Discoverer (mid-water drillship), is in the process of mooring its eight anchors on the seafloor, a Shell spokeswoman said. Once operations start, the vessel's crew will drill the top portion of an oil well.

The company also said it would test an oil-spill-containment system during the weekend.

Shell's six-year-long campaign to open up vast oil riches off Alaska's coast has been delayed by environmental lawsuits, cautious regulators and bad weather, including persistent ice. The company has only a few weeks to conduct its plans, focused on drilling the top part of several wells, before the summer drilling season is over.

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13. REFINERY STATUS: TRAINER REFINERY TO BE RUNNING BY END OF SEPT.

Dow Jones

The following table lists unplanned and planned production outages at U.S. refineries as reported by Dow Jones Newswire's. The information is compiled from both official and unofficial refining sources and doesn't purport to be a comprehensive list.

Delta Airlines (DAL) said Sept. 6 that the 185,000 barrel-a-day Trainer refinery in Pennsylvania will be operational by the end of September.

BP PLC (BP) restarted the ultracker at its 400,780 barrel-a-day refinery in Texas City, according to a government filing Sept. 6. The company did not say when the unit went out. A company spokesman did not immediately respond to a request for comment.

Phillips 66 (PSX) said Sept. 6 that power was restored to the Alliance Refinery in Belle Chasse, La. and workers are in the process of restarting the 247,000 barrel-a-day is in facility following Hurricane Isaac. The company said it expects the refinery "will be operating by mid-month."

Valero Energy Corp. (VLO) Chief Executive Bill Klesse said work on a diesel-making unit at the company's St. Charles refinery in Norco, La., is now likely to be completed in early 2013, rather than later this year as the company had previously estimated, in part due to Hurricane Isaac. The unit is still on track to be operational in the second quarter of 2013.

Both of the refineries Valero Energy Corp (VLO) had shut down ahead of Isaac are in the process of restarting, company spokesman Bill Day said. Sept. 5. He said "most production units" are back in operation at the 205,000 barrel-a-day refinery in Norco and the 125,000 barrel-a-day refinery in Meraux, though some are still being brought back. The crude unit at the Meraux facility was shut for repairs prior to the storm, and has not been restarted, he said.

Royal Dutch Shell PLC (RDSA) and Motiva Enterprises said Sept. 5 that their 235,000 barrel-a-day refinery in Convent, La. and their 233,500 barrel-a-day refinery in Norco., La. are restarting after Isaac and operating at reduced or near-normal rates.

Paramount Petroleum Corp. reported flaring at its 84,500 barrel-a-day Los Angeles County refinery Sept. 4 due to a compressor failure, according to a filing with pollution regulators.

Exxon Mobil Corp. (XOM) said Tuesday that its refinery in Chalmette, La., is in the process of restarting after being temporarily shut in advance of Hurricane Isaac. The 192,500 barrel-a-day refinery is a joint venture between Exxon and Petroleos de Venezuela. Exxon also said it is working to bring production back to normal levels at its 502,500 barrel-a-day refinery in Baton Rouge. The company began running the refinery at reduced rates as part of its preparation for the storm.

Marathon Petroleum said its 464,000 barrel-a-day Garyville Refinery has returned to normal operations following Hurricane Isaac.

Royal Dutch Shell (RDSA) and Motiva Enterprises said Sept. 2 that the Norco, La. refinery is restarting some units while others are operating at reduced rates. The Convent refinery is in continues its post-storm startup process, and will operate some unites at reduced rates while electrical power issues are being resolved. still dealing with power issues. Convent, La. and Norco, La. as a precautionary measure part of an established hurricane-preparation plan. Together the two refineries have a capacity of 468,000 barrels-of-oil per day. The company did not say what rates the refineries were operating at.

Tesoro Corp's (TSO) Wilmington, Calif. refinery experienced a brief power outage but is returning to normal operations, a spokesman said Sept. 1. The 103,800 barrel-a-day refinery flared sulfur dioxide due to the outage.

Exxon Mobil Corp. (XOM)'s Beaumont, TX refinery is running normally after flaring due to a line leak, a company spokesman said Aug. 31.

PBF Energy reported on Aug. 28 flaring at its 190,000 barrel-a-day Delaware City refinery Tuesday, according to a government filing. The refinery released over 100 pounds of sulfur dioxide in an "intermittent flaring" episode from an unspecified unit, according to the filing with the Delaware Department of Natural Resources and Environmental Control.

Flint Hills Resources Inc. said in a filing Tuesday that a leak in its 285,000 barrel-a-day refinery in Corpus Christi, Texas is ongoing and attempts to fix it have not been successful. A vacuum truck is being used to control the leak.

Chevron Corp. (CVX) reported flaring at its 245,000 barrel-a-day Richmond, Calif. refinery Aug. 28. A spokesman said Tuesday morning's flare was in the gasoline-making fluid catalytic cracking unit and lasted a few minutes.

Total Petrochemicals Inc. reported emissions that occurred while bringing units online at its Port Arthur refinery, but said in a filing Monday with the Texas Commission on Environmental Quality that the units were stabilized quickly. About 2,354 pounds of sulfur dioxide were emitted at the 225,500-barrel-a-day refinery during start-up activities at two units.

PFB Energy said in a filing Aug. 27 that its 182,200 barrel-a-day refinery in Delaware City flared more than 500 pounds of sulfur dioxide due to a mechanical failure Sunday evening.

Phillips 66 on Aug. 25 reported an unscheduled process unit shutdown resulted in flaring of sulfur dioxide at its 120,200 barrel-a-day refinery in Rodeo, Calif.

Pasadena Refining Systems Inc. said Aug. 24 that its 100,000 barrel-a-day refinery released 14,000 pounds of particulate matter from its fluid catalytic cracking unit.

Exxon Mobil Corp. (XOM) said Aug. 24 equipment failure would impact production at its 344,500 barrel-a-day refinery in Beaumont, Texas, according to a government filing made public Friday.

The company also said Aug. 24 that the crude distillation unit of the Beaumont refinery was back to normal after an instrumentation failure resulted in nearly 3,000 pounds of sulfur dioxide being released on Aug. 23.

Phillips 66 (PSX) said equipment failure on Aug. 23 caused a release of hydrogen sulfide at its 306,000 barrel-a-day refinery in Roxana, Ill.

BP Plc. (BP) said Aug. 20 the ultracracker at its refinery in Texas City, Texas, will resume normal operations after a compressor trip caused it to malfunction the day before.

Tesoro Corp. (TSO) said Aug. 19 a tripped unit caused sulfur dioxide remissions at its refinery in Wilmington, Cali. The company did not specify which unit had the trouble.

Delek Holdings USA said Aug. 18 an electrical storm caused a power outage at its refinery in Tyler, Texas.

Exxon Mobil Corp. (XOM) said on Aug. 16 its refinery in Beaumont, Texas, resumed operations after an electrical outage the day before. Exxon still expected to meet its contractual supply commitments, according to the company's filing with the Texas Commission on Environmental Quality.

Royal Dutch Shell (RDSA.LN) said Aug. 15 that a mechanical failure occurred at its refinery in Martinez, Ca., resulting in more than 100 pounds of sulfur dioxide being emitted. A fire broke out at a processing unit in the same refinery on Aug. 13.

Citgo Petroleum said Aug. 14 that the FCCU at its refinery in Lemont, Ill., was shuttered with no estimate for restart. The unit had gone down for unplanned repair on July 28.

Citgo said Aug. 10 that workers were putting back online a compressor that tripped at the coking unit of its refinery in Lemont, Ill.

Sunoco Inc.'s (SUN) Alkylation Unit 869 returned to service on Aug. 9 after going into circulation mode on Aug. 3 to facilitate compressor repair, a filing to environmental regulators made available on Aug. 10 said.

Pasadena Refining Systems Inc. on Aug. 10 reports flaring of off-spec product at its Pasadena, Texas, refinery.

Valero Energy Inc. (VLO) on Aug. 10 said an FCCU at its St. Charles refinery in Norco, La., will return to service before the end of August. It was shut on Aug. 10 for unplanned repairs.

A Bloomberg report on Aug. 8 said Chevron's (CVX) fire-struck Richmond, Calif., refinery is operating at about 60% of capacity after the Aug. 6 fire that shut only the plant's CDU.

The Borger Refinery in Borger, Texas, reported a process upset on Aug. 8 listing Areas C and D as the sources of emissions; no other details were provided in a filing to environmental regulators.

HollyFrontier Corp. (HFC) on Aug. 8 said repairs to the fire-struck diesel hydrotreating unit at its Tulsa East refinery in Okla., would take six to eight weeks. The fire and shutdown occurred on Aug. 2.

Citgo Petroleum Corp. on Aug. 8 said the FCCU shut for unplanned repair at its Lemont, Ill., refinery on July 28 is in restart mode.

BP-Husky will begin four weeks of scheduled maintenance at an FCCU and coker unit compressors on Sept. 13, a person familiar with operations at the plant said on Aug. 7.

For more detailed information, search Dow Jones Newswire using the code N/REF.

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14. HIGH STORAGE MASKING 'FUNDAMENTALLY BALANCED' US NATURAL GAS MARKET: FBR

Platts
September 8, 2012

The record amount of US natural gas in storage is masking a "fundamentally balanced" gas market this year and one that will be under-supplied in 2013 and 2014, FBR Capital's natural gas analyst said Friday.

"We estimate that the natural gas market is fundamentally balanced this year and [will be] under-supplied by 1.5 Bcf/d during 2013," FBR's Rehan Rashid said in a note to clients.

"However, current excess storage will continue to act as a headwind for near-term sustained price recovery as we estimate storage levels will take until the end of next year to decline to normal levels."

Not only will the market be slightly under-supplied next year, but if rig counts don't increase in 2013, then 2014 could be a year of record low storage, Rashid said.

"Without a significant increase in rig count during 2013, the market in 2014 could be under-supplied by 3.2 Bcf/d and cause storage to end 2014 at ultra low levels," he said. Rashid said the 2014 injection season might end with only 1.8 Tcf in storage.

Production response lags the markets price signal by as much as a year when prices are low or falling, Rashid said. When prices are increasing, producers still lag by six to nine months, he added.

Producers are slow to react to the market's signals because they don't believe significant price changes represent long-term shifts, they have contractual obligations to drilling companies and they have a backlog of drilled wells to complete, Rashid said.

"As such, assuming a roughly current dry gas rig count, we expect dry gas production to begin to show sequential decline sometime during late fourth quarter 2012," Rashid said.

Low prices are also causing US imports of LNG to drop precipitously as ships find better prices overseas, Rashid said. Declines in LNG will continue to help balance the market, he said.

"Net imports are on track to decline to 4 Bcf/d this year from 5 Bcf/d last year. We expect net imports to decline further to 2.8 Bcf/d next year and 1.8 Bcf/d in 2014," Rashid said. "This trend should play a critical role in balancing supply/demand."

Rashid maintained his 2013 average price prediction of $3.50/Mcf increasing to $4/Mcf in 2014. Noting the record amount of gas already in storage, he lowered his first-quarter 2013 price prediction to $3/Mcf from $3.25/Mcf and increased his second-quarter call to $3.50/Mcf from $3.25/Mcf.

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15. IS FRACKING GOOD FOR THE ENVIRONMENT?

By Kevin Drum
Mother Jones
Fri Sep. 7, 2012 3:00 AM PDT

Is increased production of natural gas from shale deposits good for the environment? At first glance, yes: natural gas releases less CO2 into the atmosphere than coal, so replacing coal-fired electrical plants with gas-fired plants is a win for global warming. And since fracking makes natural gas cheaper, it helps stimulate a switch from coal to gas.

Also read aboutObama's new rules for fracking, see ournatural gas timeline, and watch a music video that explains just what the frack fracking is.

But wait: It turns out you also have to account for leakage. The problem is that natural gas is methane, a powerful greenhouse gas in its own right, and when you extract natural gas from shale formations, some of it inevitably leaks out. That's decidedly badfor global warming. But David McCabe, an atmospheric scientist at the Clean Air Task Force, reports that the news is fairly good on this front: "From the best of the collective work, we believe that burning natural gas for electricity produces about 30-50% less greenhouse gas than burning coal, even accounting for the emissions of methane (and carbon dioxide) from producing and transporting the natural gas."

Unfortunately, the story doesn't stop there, and it gets a lot grimmer as you dig deeper. The problem is simple: If you make something cheaper, people will use more of it. In the case of natural gas, this is fine as long as people are using more of it as a substitute for coal. But that accounts for only a small fraction of natural gas usage:

Less than a third of natural gas is used for electrical generation. Cheap gas will mean more consumption by buildings, industry, and perhaps for transportation. In many of these sectors, cheap gas won't edge out coal or any other fuel. We'll just burn more of it.

So when you make natural gas cheaper, there's a net benefit from the one-third of it that squeezes out coal but a net loss from the two-thirds that simply represents higher consumption of natural gas. What's worse, even in the power generation market there are tradeoffs:

Cheap shale gas will also make electricity cheaper, increasing consumption, which will chip away at the emission reduction from switching from coal to gas...Quantifying all this requires modeling the effect of unconventional gas on energy markets and emissions, which the International Energy Agency (IEA) recently did. Their report predicts that if these gas resources are widely exploited, globally, CO_2 emissions in 2035 will only drop by 1.3%.

...In short, if we assume current policies, shale gas is almost a wash for global CO_2, and methane will decrease or eliminate any small climate benefits of shale gas. If cheap shale gas crowds out renewables or increases energy demand more than IEA predicts, or methane leaks are worse than we think, cheap shale gas will actually hasten climate emissions, even in the short term (2035).

Via email, McCabe tells me that the most important factor in the IEA model is crowding out: Cheap shale gas will reduce coal usage (good) but will also reduce development of new nuclear, wind, and solar power (bad). So this is your bad climate news for the day-to go along with shrinking Arctic ice, extreme weather, killer droughts, more wildfires, and monsoons increasingly inundating low-lying areas. Natural gas fracking may be good for North Dakota, but the evidence suggests that, in the end, it won't do much of anything to rein in climate change.

However, let's end on a positive note. McCabe (and the IEA) come to their bleak conclusion only "if we assume current policies." But those policies aren't written on stone tablets. The IEA has a longish set of "Golden Rules" that could make fracking a better environmental bet, and McCabe highlights the two most important of them: (1) Eliminate leaks completely from the natural gas production process, and (2) use carbon sequestration to substantially reduce carbon emissions from gas-fired electrical plants. If we really are going to drill, baby, drill-and all the evidence suggests we are-these two things should become our touchstones for doing it responsibly.

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16. TESTS SHOW OIL FOUND ON LOUISIANA SHORE CAME FROM BP SPILL

By the CNN Wire Staff
September 7, 2012 -- Updated 0157 GMT (0957 HKT)

(CNN) -- Preliminary lab results show two oil samples taken on the Louisiana coast are from BP's 2010 Gulf spill, state officials said Thursday.

The oil was discovered on Elmer's Island, said spokeswoman Olivia Watkins of the state Coastal Protection and Restoration Authority.

"There are additional samples in the testing pipeline. However, the proximity of these other oil mats is very close to those that tested positive for BP oil," she told CNN in an e-mail.

Samples also are being taken at other locations on the coast, according to Watkins.

In the wake of Hurricane Isaac, state officials reported tar balls and a large oil mat along the Gulf shore south of New Orleans. It's not clear whether the hurricane swept tar balls ashore or exposed them under the sand, U.S. Coast Guard Petty Officer Bill Colclough said. The U.S. Coast Guard reported finding three oiled birds in the area on Monday.

BP said Wednesday it was heading to the coast to test whether tar balls and oil are from the 2010 spill.

BP spokesman Ray Melick said the area is one where BP teams were already helping with cleanup from the 2010 spill before Isaac arrived.

"There's a lot of oil out there that may not be ours," Melick said.

The coastal protection authority is coordinating with other state agencies to test the contents.

The area is near Fourchon Beach and Grand Isle.

The same area was heavily affected by the spill, which happened in April 2010 after an explosion aboard the Transocean Deepwater Horizon oil rig in the Gulf of Mexico. BP had contracted the rig, which had 126 workers on it, 11 of whom are presumed dead.

Colclough said pollution after a hurricane is expected because the force of the storms can bring oil and other debris to the surface.

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17. U.S. COULD WORK WITH INDUSTRY ON FRACKING

WASHINGTON, Sept. 7 (UPI) -- WASHINGTON, Sept. 7 (UPI) -- The U.S. government said it could work with the energy industry to develop safety regulations regarding hydraulic fracturing of natural gas deposits.

Heather Zichal, deputy adviser on energy and climate change at the Bureau of Land Management, said the agency was focused on developing regulations to address the chemical makeup of the fluids used to coax natural gas from shale deposits.

"There is a way to do that with industry support," she was quoted by the Platts news service as saying. "That is what we are focused on."

A boom in shale natural gas exploration in the United States sparked concerns about the safety of techniques used for extraction. Chemicals used in the process dubbed fracking, or hydraulic fracturing, are potential sources of groundwater contamination.

Analysis of deep monitoring wells in the Wyoming aquifer by the Environmental Protection Agency last year indicated levels of glycols and other synthetic chemicals associated with fracking fluid "well above" standards that are considered safe for drinking water.

In actual drinking water, however, the EPA said those chemicals were "generally below established health and safety standards."

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18. EPA EXTENDS TEMPORARY FUEL WAIVER TO MORE STATES

Oil and Gas Journal

The US Environmental Protection Agency cited disruptions to Gulf Coast refineries from Hurricane Isaac as it extended a temporary fuel waiver it previously granted to parts of Louisiana to seven other states.

EPA extended the temporary waiver on Sept. 5 to Mississippi, Alabama, Georgia, Florida, Tennessee, South Carolina, and North Carolina after Administrator Lisa P. Jackson determined that extreme and unusual circumstances could result in temporary shortages of gasoline, which complies with federal regulations.

The move, coordinated with the US Department of Energy, also was a response to governorsâ€(tm) requests, it added.

It said the waiver applies to so-called â€œsummertimeâ€• gasoline with a low Reid vapor pressure (RVP) for the rest of a seasonal high-ozone period that ends Sept. 15. Supplies of higher RVP â€œwintertimeâ€• gasoline now may be used in those states until that time to prevent shortages, EPA said.

Bordering states are projected to have enough summertime gasoline for the next 2 weeks and no shortages are expected, it indicated. EPA said it would monitor fuel supplies in those areas and act expeditiously if necessary.

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19. AS COOLANT IS PHASED OUT, SMUGGLERS REAP LARGE PROFITS

By Elisabeth Rosenthal And Andrew W. Lehren
The New York Times

MIAMI - The chief executive of the century-old company from America's heartland shifted nervously on the witness stand here as he tried to explain how a trusted senior vice president had been caught on a wiretap buying half a million dollars in smuggled merchandise, much of it from China.

But the contraband purchased by Marcone, a St. Louis-based company that claims to be the nation's largest authorized source for appliance parts, was not counterfeit handbags or fake medicines. It was a colorless gas that provides the chill for air-conditioners from Miami to Mumbai, from Bogotá to Beijing.

Under an international treaty, the gas, HCFC-22, has been phased out of new equipment in the industrialized world because it damages the earth's ozone layer and contributes toglobal warming. There are strict limits on how much can be imported or sold in the United States by American manufacturers.

But the gas is still produced in enormous volumes and sold cheaply in China, India and Mexico, among other places in the developing world, making it a profitable if unlikely commodity for international smugglers.

So in 2009, Carlos Garcia, the Marcone vice president, generated big business for his company's growing air-conditioning operation by selling smuggled foreign gas to repairmen at rock bottom prices in a promotion called Freaky Freon Fridays, drawing on a brand name that many use as a synonym for coolants.

Although it has been illegal to sell new air-conditioners containing HCFC-22 in the United States since 2010, vast quantities of the gas are still needed to service old machines. Importing HCFC-22 without the needed approvals, as Marcone did, violates international treaties and United States law and regulations.

Yet for a long time, "Mr. Garcia was a hero to his company" for the profits his Freaky Freon Friday campaign generated, an assistant United States attorney, Thomas A. Watts-FitzGerald, told a rapt federal courtroom here in April.

On June 26, Mr. Garcia was sentenced to 13 months in federal prison.

International efforts to curb the use of HCFC-22 are faltering for dozens of reasons, from loopholes in environmental treaties to the reluctance of manufacturers to step up development of more environmentally friendly machines.

But the underlying problem is that even as international treaties and United States law demand that companies renounce the use of the coolant, economics propels them to use ever more - sometimes even if it means breaking the law.

Although the Marcone case is the largest smuggling prosecution anywhere so far, investigators believe that smuggled gas is used by other companies in the United States, and European customs officials have intercepted shipments of contraband gas arriving in Finland, Slovenia and Poland in the last two years, said Halvart Koeppen, a United Nations official who tracks illegal trade of the gas. This is "the tip of the iceberg," he said.

Much of the global air-conditioning industry relies on the gas the way the auto industry does on gasoline. But while oil is getting harder to find and more expensive, HCFC-22 is becoming more abundant and remaining cheap on the global market.

"There is no question that this is inhibiting phaseout," said Rajendra Shende, a former head of the United Nations Ozone Action Program who runs the Terre Policy Center, an environmental research institute in Pune, India.

In the meantime, the price of legitimately obtained gas has been rising in the United States and throughout Europe. That is because governments of industrialized nations, to comply with the ozone treaty known as the Montreal Protocol, restrict the use of the environmentally damaging gas in various ways. In the United States, the Environmental Protection Agency requires that companies obtain a license to make, sell or buy specific amounts of HCFC-22, with such "allowances" decreasing year by year.

The dwindling supply has led to pronounced spikes in price. What once cost retailers like Marcone $55 a canister was by 2009 going for $140 in the United States. By reducing the supply of the coolant and encouraging prices to rise, the United States government hoped to force manufacturers and consumers to scrap old machines and invest in more environmentally friendly, if more expensive, alternatives. But it has not worked out that way, especially in recessionary times when people hang on to old appliances and search for cheap shortcuts.

Many air-conditioning manufacturers have even figured out how to sidestep the 2010 ban on selling new machines containing HCFC-22, by offering unfilled air-conditioning compressors that service workers swap into existing units and then fill with the gas, creating refurbished machines that are as good as new.

The chemical giant DuPont has estimated that the service demand for HCFC-22 could exceed the supply by 27.5 million pounds annually in the United States for the next three years.

A big chunk of that shortfall will be made up through smuggling, experts say. And smuggled gas is cheaper, going for $130 a canister in the Marcone case.

The smuggling is difficult to stop because gas canisters can be readily mislabeled to mask their content. Inspections are time-consuming, policing requires expensive testing equipment that is in short supply, and border agents have more pressing targets like guns and narcotics.

In the 1990s, when the world began a successful campaign to eliminate the use of an even more powerful ozone-depleting substance called CFC-12, smuggling was also a problem. But 20 years later, the challenges are far greater: the center of the cooling industry has moved to Asia, where gas production is more difficult to monitor. China now makes more than 70 percent of the world's room air-conditioners and more than half of the world's supply of HCFC-22.

It is also easier for smugglers to hide contraband in the dizzying flows of legitimate goods in an increasingly globalized world.

"This is a crime that has all the profits of drug trafficking and none of the risk," said Mr. Watts-FitzGerald, the prosecutor in the Miami case. In many ways, it was Mr. Garcia's bad luck that the only United States attorney's district office to have a special environmental crimes unit is in South Florida.

Its relentless two-year investigation - complete with wiretaps and informants - raised the curtain on a multimillion-dollar web of smugglers and trafficking routes stretching from factories in the developing world - mostly China - to the Dominican Republic, Wales, Mexico and other points before the coolant gas ended up in American homes.

The smuggled Marcone coolant entered the United States through a variety of ruses, evidence collected by prosecutors showed.

Some of the Chinese gas on offer traveled to Ireland and the Dominican Republic before arriving in Miami, hidden among legitimate goods in three cargo containers on a small freighter. Mr. Garcia helped falsify shipping documents, express-mailing faked invoices to middlemen in the Dominican Republic to ease passage into the United States.

Other canisters came in an illegal shipment from Harp International, a leading manufacturer of the gas in Wales, accompanied by false documentation that the gas had been recycled to comply with import restrictions.

One lot of smuggled gas traveled a particularly dizzying journey: made in the United States and exported to Mexico, only to be sent back to Miami.

DuPont exports gas to Mexico - the top foreign destination for American-made HCFC-22 - because it makes more of the coolant at its Louisville, Ky., factory than it is allowed to sell in the United States. But because Mexico does not yet restrict use of the gas, the market price in Mexico is far lower than in the United States.

The smugglers took advantage of the differential, buying cheaper DuPont gas in Mexico and routing it back through the Caribbean to Miami for sale at north-of-the-border prices. The shipment was stopped after federal agents noticed that the canisters' markings indicated that they had been packaged for the Mexican market.

As a result of the Miami investigation, Marcone pleaded guilty to violating federal laws, although on the witness stand its chief executive said he had not realized Mr. Garcia's imports were illegal. So did several smugglers, including a Florida couple and a now-jailed Irish national financed by a Peruvian businessman who was recently indicted as well.

Caught on a wiretap, Mr. Garcia once asked a supplier whether the product was from Honeywell or DuPont.

"From China," the man answered.

Over time, he apparently became comfortable with his booming business, bragging about how easy it was to smuggle coolants into the United States.

"Remember that there are a bunch of tricks," he said.

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20. US DRILLING RIG COUNT SLIDES 30 UNITS TO 1,864

Oil and Gas Journal

The US rig count slid by 30 units during the week ended Sept. 7, with the total number of rotary rigs in the US reaching 1,864 this week, as reported by Baker Hughes Inc. This compares with 1,958 rigs working in the comparable week last year.

Land drilling suffered all of this loss, with operations down 31 units from a week ago, reaching 1,794 rigs. There were 19 rigs drilling in inland waters, up 1 unit from last week.

Of the total, 51 rigs were drilling offshore, unchanged from a week ago. Of these rigs, 50 were drilling in the Gulf of Mexico, up 1 rig from last week.

Of the recent weeks total, oil rigs were down by 10 units from the previous week, reaching 1,409. Gas rigs decreased as well, down 21 units to 452 rigs working. Three active rotaries were unclassified, an increase of 1 unit from a week ago.

Rigs drilling directionally were reported at 214, down 5 units from a week ago and 21 fewer than the same week last year. The number of rigs drilling horizontally decreased by 14 units to 1,135 compared with 1,134 in the comparable week a year ago.

Texas felt the heaviest losses, down 20 rigs to reach 869 this week. Four states declined by 2 rigs each: Oklahoma, 199; North Dakota, 184; Pennsylvania, 62; and Colorado, 59. Down 1 rig were Louisiana, 120; West Virginia, 27; and Alaska, 6. Three states were unchanged from a week ago: Wyoming, 52; California, 46; and Ohio, 18. Arkansas was up 1 rig to 17; New Mexico saw a gain of 2 rigs to reach 90 units working.

Canadas rig count was 345, including 256 rigs drilling for oil and 89 units drilling for gas. The total was up 29 units from the previous week but down 170 units from last yearâ€(tm)s comparable week.

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21. WHY I AM CANADIAN FOR THE GREAT BEAR

Posted by Jeff Rubin
September 6th, 2012

I've just returned from one of my favourite pastimes-salmon fishing off the west coast of British Columbia. But even in the remote Kyuquot Sound region, off the grid and far away from the news, it's hard to get away from conversations about the proposed Northern Gateway pipeline that would bring a never-ending stream of tanker traffic to the region.

Although the particular coastline of Vancouver Island I was fishing this summer is not directly on the proposed tanker route, any sizeable oil spill along the north coast of British Columbia would have consequences here as well. But the most devastating impact would be in the Great Bear region itself. It was only two years ago that my son Jack and I had an opportunity to fish on Princess Royal Island, and witness the wonder of 300-foot trees in one of the world's last remaining coastal rainforests, shrouded in primeval mists.

Of course no one has to tell me why Alberta, and its huge oil sands industry, is so desperate to build the Northern Gateway pipeline. As I wrote in my blog over a year ago, ("Oil Price Spread Costing Canadian producers big bucks ," November 10, 2011), oil sands producers have been continually getting short-changed for their oil by refineries in Cushing, Oklahoma, where most of the product from the oil sands flows. At times the gap between West Texas Intermediate (WTI), the price at Cushing and world oil prices (Brent) has exceeded $20 a barrel.

Considering that Canada exports over 2 million barrels a day to the US market, getting shortchanged $20 per barrel is no trifling matter. It works out to some $1.2-billion a month or roughly $15-billion a year. That's a much bigger subsidy than the one Alberta producers were forced to give Ontario and Quebec energy consumers in the 1980s when they had to accept made-in-Canada oil prices under the still reviled National Energy Plan. Today Alberta producers have to accept even more punitive terms for their oil from made-in-USA prices.

Who exactly is getting that missing $20 per barrel? US motorists certainly don't get any break at the pumps. They're paying the same price for their gasoline whether it is made from Canadian bitumen or any other feedstock. But the refinery making that gasoline is sure making a lot more money when it uses bitumen from Alberta than when it has to pay world oil prices for its crude.

Generally speaking, spreads between what refineries pay for feedstock (bitumen, crude) and what they charge for processed fuels have been razor thin. That's why a new refinery hasn't been built in decades in North America. In fact, there is a glut of refinery capacity on the Gulf Coast. But thanks to the subsidy they get from Canada, refineries in Cushing often enjoy refinery margins, or crack spreads as they're known in the industry, that have been as much as five times what refineries on the Gulf Coast, which have to pay full world oil prices for their feedstock, operate with. That's why it was so crucial to Alberta oil sands producers that the Obama Administration approve Transcanada's Keystone XL pipeline extension that would have connected them that additional 450 miles to the Gulf coast and world prices.

Maybe it's time Canadians stop simply contenting ourselves with being drawers of water and hewers of wood. That strategy has marked the approach to developing the oil sands, which the International Energy Agency pegs as the third largest oil reserve in the world. It's time those huge refinery margins that are shortchanging Alberta producers at Cushing were captured by new refinery capacity in Canada. Instead of simply exporting unprocessed bitumen, the country should export higher value-added petroleum products like gasoline and diesel.

That would be a win for both the economy and the environment. We don't have to risk the destruction of one of Canada's-and the world's-most spectacular environments to get full value from our oil sands resource.

Of course, we have to put refineries in environments that can best handle them and not in areas that can't. The recent proposal to build a refinery in Kitimat is an example of building one in the wrong place. It would bring the risk of both pipeline ruptures and tanker spills to the extraordinary environment and rich ecosystems of the Great Bear Rainforest. But surely refinery capacity can be built in other regions that make more environmental sense.

The export of raw bitumen is simply not in Canada's long-term economic interests. And regardless of the economics, the Great Bear is no place for oil pipelines, oil refineries, or oil tanker traffic. That's why I'm supporting Coastal First Nations and WWF as they say "No" to the proposed Northern Gateway pipeline and I will be supporting their efforts to secure a more sustainable future for the Great Bear region.

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22. AFTER HIGH NOTE FOR EURO PLAN, DISCORD EMERGES

By Steven Erlanger
The New York Times

PARIS — In the long euro crisis, there is almost always a sobering morning-after whenever European leaders appear to have made a major breakthrough. And so it went again on Friday.

Greeted with initial fanfare by investors and economic officials, the unlimited bond-buying plan that the European Central Bank president, Mario Draghi, announced Thursday ran into immediate political problems in the crucial countries of Germany, Spain and Italy.

In Germany, despite Chancellor Angela Merkel's support for Mr. Draghi and the independence of the Central Bank, political and news media reaction was scathing, with accusations that the bank, in seeking to stabilize the euro currency union, was subverting its mandate to fight inflation and forcing debt upon euro zone members.

"A Black Day for the Euro," "Over the Red Line" and "Pandora's Box Opened Forever" were some of the German headlines, with the normally sympathetic Süddeutsche Zeitungheadlining an editorial: "The E.C.B. Rewards Mismanagement." Even the German Bundesbank, officially part of the European Central Bank, put out a statement commenting acidly that the plan was "financing governments by printing bank notes."

At the same time, the two intended beneficiaries of the Draghi plan — Spain and Italy — expressed reluctance to ask the bank for help, even if both might eventually have little choice but to seek aid. The governments in Madrid and Rome apparently fear the political impact at home of bowing to whatever demands for harsh economic policy changes might come with the aid.

They seem afraid that the medicine might prove worse than the disease, because Mr. Draghi made it clear that there would be no bottomless well of money made available without a program of greater spending discipline.

“Those who did everything to have the E.C.B. help now say they don’t want it,” Ferruccio de Bortoli, editor in chief of the newspaper Corriere della Sera, said in a Twitter message. “Speculation will play on this contradiction.”

The disjunction between how officials seek to placate the lightning-fast markets and the reluctance on the part of the public and politicians to make further sacrifices and move at more than a glacial pace highlight why it has proved so difficult for Europe to overcome the challenges that still threaten to tear apart its 17-nation currency union.

The point of the new bank program is to ease interest rates on the bonds of Spain and Italy, the third- and fourth-largest economies in the euro zone after Germany and France, by reducing investor speculation against the future of the euro itself. High rates threaten to bust their budgets, but also to make it all but impossible to raise money in the financial markets.

If Spain and Italy cannot go to the market to finance their debt, then they could need full bailouts by a European Union whose rescue funds are simply too small. So keeping interest rates down for Spain and Italy is a vital part of any euro rescue plan. It is also necessary to buy time for European politicians to make the difficult political decisions to achieve the fiscal and banking union that is the longer-term answer to the structural problems of a common currency without a common treasury.

So far, investors are continuing to bet on Mr. Draghi. Interest rates on the bonds of Spain and Italy fell significantly on Thursday and Friday, after an upward swing in the value of stocks and the euro on Thursday.

The next test for the euro is on Wednesday, when the German constitutional court is expected to rule on the soundness of the permanent European bailout fund, the European Stability Mechanism, that would finance much of the bond buying under the Draghi plan.

More challenges lie ahead. Despite the reluctance of the Spanish prime minister, Mariano Rajoy, to risk the stigma of seeking help — beyond the money Europe has promised to help prop up Spain’s most troubled banks — he is expected to nonetheless make such a request before the end of October.

Spain must pay back 20 billion euros, about $25.6 billion, in bond redemptions in October. And some analysts suggest that Mr. Rajoy will need to seek help to satisfy half of Spain’s 180 billion euro financing needs (about $230 billion) over the next year. “The Spanish fear is that they become another Greece — that they will have to chop off their right arm for a blood transfusion,” said Mark Cliffe, chief economist at ING Bank in Amsterdam.

But some European officials suggest that Spain has already done a lot to clean up its books — more than Italy has done, certainly — and that any new conditions might not be much more onerous, especially in a period of such deep recession and political backlash against austerity. Mr. Rajoy is already losing popularity rapidly, and no one wants further political instability in Spain to add to continuing anxieties over Greece.

Italy is a less urgent case. Prime Minister Mario Monti, a respected economist, had been pushing for a European Central Bank program as a safety net. But he is loath to accept the terms that might now be required because of their potential to choke off economic growth and because of Italy’s own complicated political scene. The country’s ruling political parties, which support Mr. Monti for now, are rapidly losing popularity to anti-euro populist forces as national elections approach next spring.

At the same time, some Italians would welcome the idea of the Central Bank’s conditions as a way of forcing change through the sclerotic Italian political system. But there is considerable uncertainty about what kinds of conditions would be required in return for the new program, and Mr. Draghi made it clear that there would be different conditions for different countries.

In part to reassure the Germans, Mr. Draghi said that the bank's new willingness to buy bonds of countries facing market speculation would be dependent on "conditionality" — working out a program of structural and economic change with experts from the European Central Bank, the European Union and the International Monetary Fund, the so-called troika that has arranged full bailout programs for Greece, Ireland and Portugal.

But when asked how conditionality would be defined, Mr. Draghi was deliberately vague.

There is a further uncertainty about the survival of the euro zone, which the Central Bank is mandated to defend. Once the Central Bank loads up further on Spanish and Italian bonds — it has already bought more than 200 billion euros ($256 billion) of European bonds, including 50 billion euros ($64 billion) from Greece — it will find it very difficult to stop its bond buying even if countries do not keep to their promises of reform. To do so would be a form of suicide, because it could set off market panic and force countries to exit the euro, beginning a process with no clear end.

But to numerous Europeans in countries with economic problems, from Greece and Italy to Portugal and Spain, there also seems to be no end to hard times.

"I'm pretty convinced that Italy will apply for aid from the E.C.B sooner or later, and we'll work just to repay the money that the Germans lent us," said Gianluca Braia, 40, a Roman who lost his job at a food company that outsourced his work. "I'm happy that Monti is prime minister," he added, "but the music changes little for us citizens."

Reporting was contributed by Landon Thomas Jr. and Stephen Castle from London, Rachel Donadio and Gaia Pianigiani from Rome, Melissa Eddy from Berlin, and Raphael Minder from Madrid.

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23. EUROPE FACING FURTHER DIESEL PRICE HIKES

Reuters
Friday, September 07 09:47:15

Europe may face soaring diesel prices this autumn after a string of refinery accidents ahead of routine closures have tightened fuel supplies worldwide, sounding alarm bells in Western governments. The United States is pressing for a release of oil stocks from Western nations, supervised by the International Energy Agency. The reluctant IEA has stressed that the problem is not with crude supply, but with the flow of products from refineries, as wholesale fuel prices in Asian markets have already hit four-year highs..

It is a similar picture in Europe, where ICE diesel futures have risen from around $827 a tonne in June to almost $1,030 a tonne in September, hindering economic recovery. Europe does not produce enough diesel for its own needs and historically has relied on imports to fill the gap, but traders are worried it will face a supply crunch this autumn. The market has been tightening rapidly since July after the UK's Coryton refinery closed for good. Demand for gasoil, a category which includes both diesel and heating oil, has remained resilient. "Demand is stronger than economic prognosis indicates. There's a global trough in refining throughput which is extremely bullish for distillates," said Seth Kleinman, head of energy strategy at Citigroup. With gasoil refining margins reaching unseasonal highs of almost $20 a barrel in August, European refiners have increased runs, but they are not able to produce all the diesel that Europe needs. Now the market is tightening further due to lower imports from Asia and the United States following major U.S. refinery outages, including a fire at a Chevron refinery in California and the temporary closure of Lousiana refineries during Hurricane Isaac.

"Asian product barrels are going to South America and the West Coast of the U.S. because Chevron's Richmond refinery is out. Those barrels would have come to Europe but the arbitrage flow has changed - nothing is coming now," a trader said. For the same reason, U.S. diesel exports to Europe have fallen after U.S. prices shot up. "The U.S. arbitrage is slammed shut," a trader confirmed. Other unexpected outages have cemented the trend. Venezuela's 645,000 barrel-per-day (bpd) Amauy refinery suffered a massive explosion in August, attracting more barrels to the Americas to meet the expected shortfall.

"Taken together, the downstream losses are larger than the upstream losses, translating into tighter product markets," said JP Morgan analyst Colin Fenton. JP Morgan estimates that about 11 million barrels of middle distillates will be displaced by the combined production outages for the period up until September 12, but sees losses persisting into October. Russian middle distillate exports to Europe are also seen falling in September due to higher export taxes and planned maintenance by at least six refineries. The Russian government is also trying to encourage middle distillates to stay in the country during the maintenance period by increasing the export duty to $259.90 a tonne from $222.10 a tonne in August.

With European refinery margins so healthy and supplies so tight, some have suggested planned maintenance may be delayed. But other traders are sceptical, and believe September and October could prove crunch months in markets like the UK, where Ineos's Grangemouth refinery, Essar's Stanlow and Valero's Pembroke all have maintenance scheduled. "I don't see maintenance being delayed, Ineos is already mid-way through theirs and others are going to do it regardless of spot values," said one broker. A trader also dismissed the suggestion, predicting further tightening. "Demand is low and runs are at the maximum so although in the near term there is the potential for the market to soften, I do remain constructive thereafter," he said.

On the demand side, traders are waiting to see if German households will restock their heating oil tanks this autumn, which are currently only about 56 percent full. Apart from a brief flurry of activity mid-summer when gasoil prices fell to around $806 a tonne, German consumers have been sitting on their hands. "Product stocks are at unseasonably low levels, and the German consumer has stopped buying now the flat price has gone up again," a trader said. He suggested they might try to ride out the winter with tanks at half-capacity. Given this, some have expressed concern about price spikes in middle distillates, particularly if winter comes early. (C) Reuters

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24. FRANCE COMMITTED TO CLOSING ITS OLDEST NUCLEAR REACTOR BY 2017

By RFI
France
2012-09-07 13:30

The French Energy Minister says the government is committed to closing the country's oldest nuclear reactor by 2017. Two people were burnt in an accident there earlier this week.

On Wednesday, a steam leak injured two workers at the Fessenheim plant in eastern France, near the Swiss and German borders.

Speaking on the French radio station France Info, the Ecology and Energy Minister, Delphine Batho, said: "Fessenheim will be closed as soon as possible in socially and technically responsible conditions."

"Nuclear plants are being phased out across the world in coming years and this is an industrial issue for France," she said.

France, the world's most nuclear-dependent country, operates 58 reactors and has been a leading international proponent of atomic energy.

But in a deal with the Greens before this year's parliamentary and presidential elections, President Francois Hollande's Socialist party promised to reduce reliance on nuclear energy from more than 75 percent to 50 percent by shutting 24 reactors by 2025.

Hollande had also pledged to close Fessenheim by 2017.

France's reliance on nuclear power has been increasingly called into question since the Fukushima disaster in Japan, which prompted Germany to announce plans to shut down all of its reactors by the end of 2022.

On stream since 1977, Fessenheim has two water reactors. It is built along a huge canal and draws water for cooling from the Rhine river.

The plant is considered vulnerable to seismic activity and flooding because of its location.

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25. HAS OPEC MISLED US ABOUT THE SIZE OF ITS OIL RESERVES? DOES IT MATTER?

by Kurt Cobb
Resource Insights

Has OPEC misled us about the size of its oil reserves? The short answer is probably. The long answer is that currently, there is no way to know for sure.

The next question we should ask is: Does it matter? The answer is most definitely yes. OPEC, short for theOrganization of Petroleum Exporting Countries, currently claims that its 12 members hold 81.3 percent of the world's oil reserves. And, with few exceptions the world believes them. Trouble is these reserves "are not verified by independent auditors," according to a study (PDF) done by the U.S. Government Accountability Office, the nonpartisan investigative arm of the U.S. Congress. OPEC reserves are simply self-reported by each country. Essentially, OPEC's members are asking us to take their word for it. But should we?

It ought to give us pause that the reserve numbers OPEC countries release are used in major reports produced by the U.S. Energy Information Administration (EIA); the Paris-based International Energy Agency (IEA), a consortium of 28 of the world's oil importing nations; oil giant BP which annually publishes the widely cited BP Statistical Review of World Energy; and myriad other organizations. Reports from the two agencies cited above and BP are frequently consulted by governments, industry, banks and investors around the world for policy formulation, long-term planning, and lending and investment decisions. Yet these groups seem blissfully unaware of the caveats surrounding the numbers in those reports and by extension surrounding more than 80 percent of the world's oil reserves.

Keep in mind as we go along that the sometimes astronomical numbers thrown around for world oil reserves by the uninformed or by those who intend intentionally to mislead us either have no basis in fact or actually refer to "resources." Resources are only an estimate of oil thought to be in the ground based on rather sketchy evidence. And, most of that oil will never be recoverable. Reserves, however, are what can be produced at today's prices from known fields using existing technology. It turns out that reserves are only a tiny fraction of so-called resources.

Now here's the caveat from the International Energy Agency in its World Energy Outlook 2010:

Definitions of reserves and resources, and the methodologies for estimating them, vary considerably around the world, leading to confusion and inconsistencies. In addition, there is often a lack of transparency in the way reserves are reported: many national oil companies in both OPEC and non-OPEC countries do not use external auditors of reserves and do not publish detailed results.

"National oil companies" refers to government-owned companies which typically control all oil development within a country.

The BP Statistical Review of World Energy for 2012 provides this explanatory note under a table listing oil reserves by country:

The estimates in this table have been compiled using a combination of primary official sources, third-party data from the OPEC Secretariat, World Oil, Oil & Gas Journal and an independent estimate of Russian and Chinese reserves based on information in the public domain. Canadian oil sands 'under active development' are an official estimate. Venezuelan Orinoco Belt reserves are based on the OPEC Secretariat and government announcements.

The key words are "OPEC Secretariat" which refers to the OPEC staff located in an office in Vienna. That office is where BP presumably gets its information about OPEC reserves. The EIA lists the OPEC Annual Statistical Bulletin put out by-you guessed it-the OPEC Secretariat. Alas, the Annual Statistical Bulletin tells us under the heading "Questions on data" that "[a]lthough comments are welcome, OPEC regrets that it is unable to answer all enquiries concerning the data in the ASB." In other words, trust us. So, information about OPEC reserves comes either from the OPEC offices in Vienna or from member countries. Some analysts may adjust those figures based on the few shreds of evidence that are available outside of official government pronouncements. But, in reality, there are almost no hard facts when it comes to OPEC reserves.

Strangely, many of these countries say that a detailed audit of their fields by independent observers is out of the question because oil reserves are a state secret. And, yet those countries report their reserves to OPEC which publishes them for all to see. So, are oil reserves in many OPEC countries a state secret or not? Apparently, what's secret is the field-by-field data that would tell us whether the reserves claimed by these countries are actually there. Are there reasons to believe that if we saw this data it would contradict the official overall number provided by some countries? In a word, yes.

First, OPEC allocates production levels among its members. It does this to control the flow of oil to world markets and thus to manipulate the price. OPEC bases production quotas for its members in part on the size of each member's reserves. When this policy was first established in the 1980s, reported reserves for several OPEC members jumped between roughly 40 and 200 percent within one year-not always the same year-as each country jockeyed for a higher production quota.Based on EIA data, here's what it looked like:
CountryReserves in Barrels (Year)Reserves in Barrels (Year)Percentage IncreaseIran48.8 billion (1987)92.9 billion (1988)90.4%Iraq47.1 billion (1987)100 billion (1988)112.3%Kuwait66.7 billion (1984)92.7 billion (1985)39.0%Saudi Arabia172.6 billion (1989)257.6 billion (1990)49.3%United Arab Emirates33.1 billion (1987)98.1 billion (1988)196.4%Venezuela25.0 billion (1987)56.3 billion (1988)125.2%Not every country participated in the free-for-all. But the countries with the largest exports participated with a vengeance. There was no drilling program in any of these countries that could have explained such jumps in reserves.

The competition continues to this day. In October 2010 Iraq announced an increase in its oil reserves from 115 billion barrels to 143.1 billion barrels. No attempt was made to hide the reason for the increase: "Falah al-Amri, the head of the country's State Oil Marketing Company, suggested that future quota calculations might have been a factor in the revision." A week later Iran raised its reserves number from 136.6 billion barrels to 150.3 billion barrels, presumably in order to maintain its position within the OPEC production quota system. These numbers have been dutifully included in the latest statistical compilations of both EIA and BP, as if the two hadn't gotten the memo that Iraq's and Iran's increases were reported merely for quota reasons and not because of any particular discoveries.

Perhaps even more astounding is that some OPEC members don't even take the oil reserves reporting game seriously any more. Logic dictates that there should be at least small adjustments up or down in reserves each year as new fields are developed and old ones decline. The world of geology simply cannot yield precisely the new reserves needed to replace exactly the amount of oil extracted from existing fields each year.

And yet, the United Arab Emirates has been reporting 97.8 billion barrels of oil reserves every year since 1997. Kuwait has been reporting 104 billion barrels each year since 2008. Iraq shows long periods from 1980 onward when reserves don't change, the latest running from 2004 to 2011 during which reserves supposedly held absolutely steady at 115 billion barrels. Algeria has reported 12.2 billion barrels from 2008 onward. At least Saudi Arabia has demonstrated a certain sensitivity to appearances and has adjusted its reserves number slightly from year to year. And yet, that number has remained within a narrow range of 260 to 267 billion barrels from 1991 to the present. All of these numbers suggest that depletion from existing fields is taking absolutely no toll on OPEC's reserves. Even if that's true, we have no way of verifying it.

The second reason to doubt OPEC's official oil reserve numbers is that two insiders have told us not to trust those numbers. The now deceased A. M. Samsam Bakhtiari, an executive for the National Iranian Oil Company, told the Oil & Gas Journal all the way back in 2003 the following: "I know from experience how 'reserves' are estimated in major Middle Eastern (and OPEC) countries...And the methods used are usually far from scientific, as the basic knowledge for such a complex exercise is not at hand." He estimated that Iranian reserves were about 37 billion barrels, not the 90 billion that were being cited at the time.

Back in 2007 Sadad al-Huseini, former executive vice president for exploration and production at Saudi Aramco, the state oil company that controls all oil development in Saudi Arabia, told a conference in London that world oil reserves had been inflated by 300 billion barrels. That number almost matches the increases in OPEC members' reserves for quota reasons in the 1980s, and it represented about a quarter of all reported reserves in 2007. As a result, to this day al-Huseini remains skeptical of claims that world oil production will rise much from here.

Another piece of evidence that casts doubt on OPEC members' reserve claims came to light in 2005. That year Petroleum Intelligence Weekly, an industry newsletter with worldwide reach, obtained internal documents from the state-owned Kuwait Oil Co. The documents revealed that Kuwaiti reserves were only half the official number, 48 billion barrels versus 99 billion. Since then policymakers and the public seemed to have ignored the entire incident. The BP Statistical Review lists Kuwait's reserves as 101.5 billion barrels as of 2011. The EIA shows them as 104 billion. Skepticism apparently is taking an extended holiday at BP and EIA.

Measuring oil reserves remains something of an art. Even large publicly traded oil companies with armies of petroleum geologists and engineers who operate under strict U.S. Securities and Exchange Commission rules for estimating reserves-even these companies don't always get it right. In 2004 Royal Dutch Shell had to lower its reserves number by 20 percent, a huge and costly blunder for such a sophisticated company. If Shell can bungle its reserves estimate, then how much more likely are OPEC countries which are subject to virtually no public scrutiny to bungle theirs.

I said in a previous piece that the rate of production is the key metric when evaluating the success of the world's oil production and delivery system. But sustained production of oil depends on the size and quality of reserves. If the world does indeed have 300 billion fewer barrels of reserves than it thinks it does, that has implications for how long the current rate of production can be maintained. (It has been stuck between 71 and 76 million barrels per day since 2005.) And, that is why the mystery surrounding OPEC's reserves, which supposedly constitute 80 percent of the world's reserves, is so disturbing. Even more disturbing is how much this mystery is ignored or perhaps not understood by policymakers, industry and the public.

We shouldn't be the least bit exultant over claims that we have more oil reserves than we've ever had before. First, we are using up that oil at a faster rate than ever before. Second, much of what is currently parading as reserves may not be. Third, the plateau in worldwide oil production since 2005 is actually consistent with a smaller reserve base.

Given all this I think we can safely say that when it comes to the official statistics on oil reserves, there is likely to be less than meets the eye. And that begs the question: Does it really make sense for the world to chart its energy future based on such dubious information?

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26. OREGON POISED FOR WAVE ENERGY

REEDSPORT, Ore., Sept. 7 (UPI) -- REEDSPORT, Ore., Sept. 7 (UPI) -- The United States' first commercially licensed grid-connected wave energy device is in its final stage of testing before its scheduled launch next month in Oregon.

The 40-foot-wide, 260-ton PowerBuoy, developed by New Jersey company Ocean Power Technologies, will extend more than 100 feet into the sea and rise another 30 feet from the surface, The Oregonian newspaper reports.

Part of the buoy's structure is designed to move like a piston to generate the charge. From its anchorage site 2.5 miles offshore near Reedsport, Ore., the buoy will send electricity to shore via an ocean-bottom cable.

"Wave energy is essentially an accumulation of wind energy," Charles F. Dunleavy, chief executive of Ocean Power Technologies, told The New York Times, explaining that in the Northern Pacific, winds cause consistent waves and create a large area of wave energy, or fetch, for the massive buoy to capture.

Last month, OPT received a federal permit for the deployment of up to 10 wave energy devices, which the company says is enough to generate electricity for approximately 1,000 homes.

Energy development groups around the globe are closely watching the progress of the Reedsport project because its outcome could affect the flow of private investment by bigger companies that have limited themselves to on-shore projects, the Times report says.

"Wave energy is very expensive to develop and they need to see that there is a potential worldwide," said Antonio Sarmento, a professor at Lisbon Technical University and the director of the Wave Energy Center, a private non-profit group in Portugal.

"In that sense, having the first commercial deployment in the U.S. is very, very positive."

Dunleavy says that potential ideal locations for wave energy include areas off the coasts of Western Europe and South America.

Separately, a $1.5 million wave energy testing system -- the Ocean Sentinel -- began operating off the coast of Oregon near Newport in August.

Developed by the Northwest National Marine Renewable Energy Center at Oregon State University with funding from the U.S. Department of Energy, the Oregon Department of Energy and the Oregon Wave Energy Trust, the Ocean Sentinel will provide a "standardized, accurate system to compare various wave energy technologies," says Sean Moran, ocean test facilities manager with NNMREC.

An editorial in The Oregonian newspaper Friday states: "Wave power, after nearly a decade of dreaming and planning, seems ready to crest. Done right, it represents Oregon's best opportunity to deliver a needed new technology that could attract private investment and show profit while demonstrating that innovation and resource conservation are compatible."

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