NYMEX OIL: US$89.74
-$0.49
February delivery
NYMEX N. Gas: US$4.49
-$0.08 per MMBTU
February delivery

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REGULATORS EASE CNRL STOP-WORK ORDER

Health and safety officials for the Alberta government partially lifted a stop-work order on Friday that was imposed on Canadian Natural Resources Ltd's Horizon oil sands upgrader following a fire earlier this month. Barrie Harrison, a spokesman for Alberta Occupational Health and Safety, said the order is now covering only the project's coker unit, the site of the Jan. 6 fire that injured five people. "We have reduced the size of the stop-work order to the more immediate area of where the fire and explosion happened," he said. "We feel there is no longer a risk of ice and debris falling outside of that area." Harrison said that, with the easing, the area covered by the stop-work order is a tenth its former size, allowing company officials to access much more of the upgrading unit where bitumen from the oil sands is converted in refinery-ready synthetic crude. A full lifting of the order is needed before Canadian Natural can examine the cokers to see if output at the site -- capable of producing 110,000 barrels per day before the fire -- can partially resume. Harrison said a full lifting of the order will come after investigators examine the coker's superstructure with the use of a crane.

TRANSCANADA PLANS U.S. BAKKEN PIPELINE LINK

TransCanada Corp plans to build a $140 million link to its proposed Keystone XL oil pipeline from the Bakken oil region in the northern United States, a project that would send more crude to a huge Oklahoma storage hub, the company said on Thursday. TransCanada, whose $7 billion XL pipeline to the U.S. Gulf Coast from Alberta is awaiting U.S. State Department approval, said shippers from the fast-developing Bakken oil region have committed to capacity of 65,000 barrels a day on the planned link. That is less than the 100,000 bpd the company had on offer, but pushes the project above its economic hurdle, TransCanada Chief Executive Russ Girling said. "There was substantially more interest in the proposal and as that production comes on, I would expect we would move closer to that 100,000 barrels a day," Girling said in an interview. The line would provide access from Baker, Montana, to Cushing, Oklahoma, the delivery point for New York Mercantile Exchange West Texas Intermediate oil futures, and on to the U.S. Gulf Coast. The Bakken geological formation, straddling North Dakota, Montana and Saskatchewan, is the target of brisk investment as companies employ the horizontal drilling and multistage rock fracturing technology developed for shale gas. Output from the the U.S. portion of the region is expected to climb as much as 300,000 bpd by 2015, nearly doubling current overall North Dakota oil output. Pipeline capacity has lagged production increases. The line would start up in the first quarter of 2013, but it is dependent on Keystone XL being approved, TransCanada said. That project, which would move 510,000 barrels a day, faces opposition from environmental groups. They say Keystone XL will bring new oil spill risks to numerous states and drive more Canadian oil sands development. Girling said he still expects a State Department decision by the middle of this year, a time frame that was extended last year, and believes the project's potential economic benefits, including jobs creation and energy security, will sway regulators in favor. Meanwhile, commercial shipments on the final leg of the initial Keystone oil pipeline, which runs to Cushing from Steel City, Nebraska, should start in late February or in March, he said. Rising volumes of Canadian crude imports have already contributed to brimming storage tanks at the hub, which analysts have said is a factor behind a widening spread between U.S. benchmark oil prices and Brent, the world marker. With XL, the link to the U.S. Gulf Coast refining region will counteract further gluts there, Girling said. "Our project is intended to be in service by 2013, which would include the extension of the Keystone XL pipeline from Cushing to Port Arthur, Texas," he said. "If it wasn't cleared by that point, certainly our project would help in alleviating that bottleneck," he said.

ENBRIDGE BOOSTS US SPILL COST

The partnership, the U.S. affiliate of Canadian pipeline company Enbridge Inc, said in a regulatory filing on Friday that it raised the estimate from $430 million as it reviewed its spending to date and received additional information on the cost of environmental remediation and restoration of the spill site. More than 20,000 barrels of oil leaked into a Michigan river system when Enbridge's Line 6B ruptured on July 26, closing the line for nine weeks. The partnership said it expects most of the costs to be covered under a $650 million insurance policy, but the estimate does not include $13 million in lost revenue. The revised estimate also does not include any fines or penalties that may be levied because of the spill.

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OPEC PRESSURED TO LIFT OUTPUT

OPEC is facing growing calls to boost oil production as crude prices in Asia and Africa surpass $100 a barrel for the first time in two years. Nigeria's Bonny Light grade, from which traders gauge the cost of West African oil, rose to $100.12 a barrel on Jan. 17, passing $100 for the first time since October 2008, according to data compiled by Bloomberg. Malaysia's Tapis and Indonesia's Minas breached that level a week ago, trading at $103.36 and $103.21, respectively today. The International Energy Agency, an adviser to consuming nations, said Jan. 18 that "three-digit oil prices risk damaging" the economic recovery, signaling that the Organization of Petroleum Exporting Countries should raise output. OPEC responded the same day by saying that global supplies are sufficient to meet demand. With "some Asian crudes well above $100 a barrel, the risks of OPEC acting must be higher," said Lawrence Eagles, New York-based head of oil research at JPMorgan Chase & Co. “We would not be surprised to see the public rhetoric from consuming countries accelerate in the coming weeks. Behind the scenes pressure will no doubt be mounting in parallel.” Investors should “pare risk and take some profits” on the possibility that OPEC unexpectedly increases production, Eagles said in a report yesterday. “There is a rising risk of coming into the office one Monday morning to find OPEC has raised output dramatically.” Oil producers as well as consumers may suffer if crude stays at about $95 to $100 a barrel, the Paris-based IEA said. Stockpiles held by companies in the most developed economies were at 2.742 billion barrels, “near the top of their five-year range,” it said. OPEC, responsible for 40 percent of global supply, issued a statement on its website saying “there is more than enough oil on the market,” and promised action in the event of a supply shortage. The group is next due to review production quotas in June, skipping its usual first-quarter conference. “Any assumption that there is tightness in the market is incorrect,” OPEC Secretary-General Abdalla El-Badri said in the statement. “In reality, commercial stocks remain well above the five-year average and forward cover stands at around 60 days. There is more than enough oil on the market.” Crude declined 25 cents, or 0.3 percent, to $89.34 a barrel in electronic trading on the New York Mercantile Exchange as of 4:36 p.m. London time. It has gained 18 percent from a year ago. Brent futures, used to price two-thirds of the world’s oil, climbed 59 cents, or 0.6 percent, to $97.17 a barrel, for an advance of 30 percent in the past year. Brent reached a 27- month high of $99.20 on Jan. 14. African and Asian oil grades typically trade at a premium to other oils because of their lower sulfur content and higher gasoline and jet fuel yields. Nigeria, Angola and Gabon supply 15 percent of U.S. crude imports, according to data from the U.S. Energy Department in Washington. When Brent first exceeded $100 a barrel in February 2008, Bonny Light had breached that level the previous week. Tapis and Minas had broken through $100 three months earlier. Global oil benchmarks may reach $100 at “any time,” the IEA’s chief economist, Fatih Birol, said in a Jan. 18 interview with Maryam Nemazee on Bloomberg Television. “If the oil price goes up, the vulnerability of our economy is going to increase significantly, and this can derail the recovery,” Birol said. Officials at OPEC, including El-Badri and Iranian Oil Minister Masoud Mir-Kazemi, this year’s president, say $100 oil may not curtail economic growth. “The increase in oil prices toward $100 is not worrisome enough to warrant a call for an emergency meeting,” Mir-Kazemi said in Tehran on Jan. 16. “None of the OPEC members considers this figure as being unreasonable.” Rather than heed the IEA’s suggestions, OPEC will likely await proof that consumers require additional barrels, according to PVM Oil Associates Ltd., a London-based broker. “OPEC is more cautious and wants to respond to solid signals such as greater demand for physical oil and low stock levels, rather than responding to a greater demand for oil futures,” David Hufton, PVM’s managing director, said in a report Thursday.

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BLACKROCK SEES OIL HITTING $120/BBL

Oil prices will probably soar to $120 a barrel or higher this year until they cause economic growth to stall, one of the world's most successful natural resources fund managers has warned. Dan Rice, co-head of the $1.5 billion BlackRock Energy and Resources Fund, told Reuters he saw the current pace of global economic growth as unsustainable in a world where energy supplies are increasingly constrained. "I don't think the world can continue to grow at this rate and not go to $120 plus," the BlackRock managing director told Reuters in a telephone interview. His fund has averaged annual returns of 18 percent over the last 10 years. "That will put a brake on the economy that will drag global growth back down to 3 percent." Rice, who invests in natural resource equities, said he saw global growth at around 5 percent currently, but thought the world is heading for a period of slower growth as high energy and other raw material costs weigh on the global economy. Rice was managing a total of approximately $7 billion as of Monday across his portfolio of mutual funds, institutional accounts and hedge funds, according to a spokeswoman at BlackRock, the world's largest money manager. Oil demand is set to hit a record 89.1 million barrels per day in 2011, according to the International Energy Agency. While many traders think OPEC has enough spare capacity to stop a spike back toward $150 like in 2008, demand is up more than 4 million bpd since the depths of the recession. Rice said he fears tightening supplies could tip the world economy into a slowdown -- as he believes they did three years ago. "2008 started out as a mild commodity price induced recession, that had slowed (global) growth from 5 percent to 2-3 percent," said Rice, 59, who joined State Street Research & Management in 1984. It merged with BlackRock in 2005. "It only fell below 2 percent after Lehman Brothers collapsed. That put a different spin on things. I know our numbers are in the ballpark for future GDP growth. They're born of 30 years of doing this." He said a long-term price of around $90 is probably the highest the world economy can sustain without a global slowdown. U.S. crude oil and North Sea Brent, the two main global benchmarks, are currently trading around $92 and $98 a barrel respectively, about $13-$19 above the 2010 average as booming emerging markets stoke demand. While Rice is concerned about rising commodity prices, he said there was still value to be found for now, with most oil producer shares currently reflecting expectations of a long-term price of just $80 a barrel. "I think (oil producer) stocks will be discounting $100 oil at some point this year and at that point I will be selling," Rice said,In the energy sector, Rice is even more bullish on coal and natural gas producers this year, with crude producers in third place. Rice expects both Central Appalachian coal to trade at $90 a tonne -- with most share prices currently reflecting an average of $70-$75 a tonne, while natural gas is expected to climb as high oil prices encourage fuel switching. "At the moment most stock prices are discounting $70-$75 a tonne, but if it goes to $90 those stock prices will have doubled. If it goes to $100 they will have tripled. I'm happy with doubled." The fund's largest holdings are in coal miners Massey Energy and Peabody Energy at 5 and 4 percent respectively, with coal and gas producer CONSOL Energy in third, according to Morningstar. While he remains bullish in the short to medium-term, Rice said he may choose to exit his positions if he sees prices getting back to the heady levels of mid-2008 -- when he, like many others, was burned by the subsequent crash. "If we get to the point where stocks are discounting 5 percent GDP growth, if there are no other places to invest I would move to cash."


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BP RELEASES ENERGY OUTLOOK 2030

On January 19, BP released its Energy Outlook 2030, a document that projects current trends in the energy sector, together with the company’s view on the most plausible future developments to give one scenario of how the world will look in 2030. The release of the report was presided over by BP Group Chief Executive Bob Dudley and presented by the group’s Chief Economist Christof Rühl. The report is striking in the

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emphasis it places on developing countries for future energy demand growth and the expectation that OPEC will gain in power over the international oil markets as non-OPEC production declines. According to the report, non-OECD energy consumption will be 68% higher in 2030, averaging 2.6% annual growth from 2010, and will account for 93% of global energy growth. It puts renewables in the lead in terms of growth, at 8.2%, followed by natural gas at 2.1%. By comparison, oil's share of primary energy is expected to continue to decline. While fossil fuels presented 83% of the growth in energy over the 1990-2010 period, BP believes that this figure will fall to 64% over the next two decades. "The diversifying fuel mix is being driven largely by developments in the power sector. Energy used to generate power remains the fastest growing sector, accounting for 53% of the growth in primary energy consumption 1990-2010 and projected to account for 57% of the growth to 2030. In terms of end use, industry drives the growth of final energy consumption. The role of transport is weakening; over the past 20 years transport sector energy demand grew at about the same rate as total energy demand, but over the next 20 years it grows much less rapidly than total energy," said Rühl. "OECD oil demand declines are concentrated primarily outside the transport sector, where it is relatively easier to displace oil by gas and renewables; post-2015, OECD transport demand is also expected to fall as technology and policy drive improved engine efficiency." OPEC is expected to account for over 75% of global oil supply growth with natural gas liquid output anticipated to rise by over 4Mbpd. Iraqi and Saudi oil production are expected to rise by around 3Mbpd each. Meanwhile, non-OPEC supply is anticipated to fall by just over 3Mbpd with greater output from Brazil and the former Soviet Union offsetting some of the declines seen elsewhere. As far as oil consumption is concerned, China is expected to overtake the US with its call on global oil production, rising by 8Mbpd to 17.5Mbpd by 2030. BP appears to be quite pessimistic, regarding the impact of future carbon policies. It believes that in 2030, CO_2 emissions will be 10% less than at present. While this will not be enough to limit CO_2 concentration in the atmosphere to 450ppm, it will still reflect significant effort, given that world primary energy demand is expected to grow by 39% over the next 20 years. In BP's policy case "global emissions peak just after 2020, but will still be 20% above 2005 levels. The emissions path is still expected to be well above the International Energy Agency's 450 Scenario1 , indicating how much more effort will be required after 2030 to put the world onto a 'safe' path," said Rühl.