13th June, 2015

A couple of news items I found interesting this week are as follows:

1. ONGC produced 204.93 million barrels of crude oil and 915.96 bcf of gas during 2014-15 (financial year). It intends to spend approx. $6.51 billion to develop new oil and gas fields as well as rework on old mature fields to increase production. This includes development of India's east and west coast fields and redevelopment of Mumbai High fields, Heera South fields and Daman fields. I am sure you all have read this in the newspaper or heard it on TV. For me this was news.

2. The US Energy Information Administration has indicated that the shale oil output from North Dakota 's Bakken and Eagle Ford shale in Texas will shrink by 1.3% this month to 5.58 mb/d and may drop to 5.49 mb/d in July. This is somewhat contrary to earlier reports saying rigs are available at cheaper rates, and also the improved efficiency is resulting in enhanced production. The decision by OPEC to maintain their production and preserve their market share has started having an impact on shale oil by forcing fewer rigs in operation, thereby yielding lower production. It would be interesting to see how this production will hold beyond July'15. At least for the present the price of the barrel is around $60. We will wait and watch.

3. In addition to the above, BP's 64th Statistical Review of World Energy was released on June 10th, which revealed a few interesting facts.
   (a) In 2014, US recorded a growth of 1.6 mb/d oil output. Canada's production was up 310,000 b/d and Brazil's production went up by 230,000 b/d.
   (b) Global oil production rose by 2.1 mb/d or 2.3% from last year.
   (c) Global oil consumption rose by 800,000 b/d or 0.8%.
   (d) Global gas consumption rose by 0.4% , which is below the 10 year average of 2.4%, largely because of the decline in consumption in some European countries.
   (e) US emerged ahead of Russia as the leading producer of oil and gas.
   (f) China's energy consumption during 2014 has grown slower in the last many years.

   Hope these figures are informative.

More chit-chat later.

An interesting question that has resided in my mind for the last little while is that in the present dismal scenario, where the price of the barrel has collapsed in the last 7 months now, why is it that the US energy producers have so far in 2015, pumped more oil than before, which is largely from shale. I have tried to find out the answer in my conversations with people and also looking around for information. Hereunder are a few reasons:

1. The equipment costs in the US have fallen in the last 7 months.
2. Drilling techniques have been getting better, and in these last 7 months they have been enhanced more.
3. Oil companies have been focusing more on those fields that are either more prolific or can produce at lower cost. Fewer rigs are required for extracting more oil in these fields than before. The average cost for operating such wells is way low for shale producers. Similarly, more stress is being laid on scrutinizing seismic surveys more closely to make sure that only those pockets in the subsurface are drilled that have a high probability of panning out. This may be for conventional and unconventional production. Some companies have even announced that their average annual output will increase by a few percent in the next couple of years, ExxonMobil being an example.

For these reasons the US oil producers have not cutback or shut down their wells. In my earlier notes I had indicated that the US oil production is not going to slow down in 2015. It might happen in 2016, though the reason for that still escapes me. We will see how it goes.

So much for now.