Ideas about the Future of Energy in the US (from our Industry Insider and Prof. Goose)

Posted by Prof. Goose on September 1, 2005 - 4:48am
Topic: Supply/Production

We are approaching a time when the American people will be paying more attention to energy and the problems we face than ever before. The time to ponder the short- and medium-term future of energy supply in the United States is here.

After reading various sites today, peakoil.com, The Energy Bulletin, FTD, and many of the other sites in the peak oil webring (see link in right sidebar), let me try to put together some of my thoughts. (There's so much to get a handle on, as always, with the peak oil situation--it really is like squeezing dry sand at times, isn't it?).

(a long, hopefully useful post after the fold, including some thoughts from our anonymous industry source...)

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* My point since we started this project has been that "peak oil" changes the rules of the domestic and geopolitical games. There is no more immediate supply of cheap oil to call upon than what we already extract daily: refining more-sour crude, exploration and retrieval only becomes more and more costly from here on in, and ergo, behaviors and lives will have to change to adapt.

Because of our crippling dependence on petroleum (which will become more obvious each day that passes in the coming weeks), one terrorist attack, one malevolent world leader with oil, or, unfortunately one event like Katrina that disrupts "the Spice" (Frank Herbert's *Dune* reference) can bring a country, especially one that uses a quarter of the world's daily supply of oil, to its knees.

Don't get me wrong. *Ceteris paribus*, Katrina would have desperately hurt the US had it happened 10 years ago. However, in the era of peak oil (when there's just no wiggle room to find cheap supply to put into the system), the turmoil that Katrina hath wrought may hurt us in ways we haven't even fathomed yet because of the way our lifestyles will have to change in order to adjust to less available energy.

* I mentioned last week, during Katrina's ill-fated approach to NOLA, that this whole scenario resembled The Oil Storm from F/X (check your schedules, I think they are reairing it). So far, this situation has followed the script, almost to a tee. (By the way, in case you're curious, in the show the next thing to happen is that extremists in SA saw this time of geopolitical weakness as a perfect opportunity to overthrow their government, then took control of the oil in SA.)

* Matt Simmons was quoted as saying "this [Katrina] is the trigger event that will drive energy prices way, way higher." Well, duh...but for how long? Is this a permanent change?

And then here's Simmons from another story:

> My guess is that over the course of the next nine months, a lot of the major oil and gas companies are going to come to the awful realization that all of the production plans that they have are going to fall by the wayside because they can't find a rig," Simmons said.

But what exactly will Katrina be a trigger event for exactly? A problem with infrastructure? A logistic clusterfuck? (forgive me, JHK.)

* Another set of thoughts I've been having is that the short- and medium-term impacts of Katrina will drastically reduce consumption (due to recession/depression) and therefore give us some time to soften the blow of Hubbert's Peak of oil supply.

My anonymous source in the industry provided evidence for this notion, and here's what she said (it is a compelling case):

> Consider that awareness of Peak Oil has just begun debate within media circles. The federal government has taken the position that "all is normal." Demand/supply is as tight as a drum, with gas prices inching upwards, and consumers grumbling about "oil company gouging". Even within the PO community, there are those who believe that the invisible "market demand" will always make things right, and prices rocking along slowly rising supports their view.
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> Along comes a single weather event, in an area KNOWN for these events, and it does what hurricanes always do - it destroys manmade stuff, knocks over trees, remakes the coastline, and vanishes into the wind. This has happened in exactly this area since we began recording these events, and well before that. It is definitely nothing new under the sun. We knew this could happen, but it wasn't cost effective to try to prevent it from happening!
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> The ramifications of this are at first not apparent, as we are concerned with saving lives and then property. But once this has ended, what has changed for the immediate future?
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> 1. Domestic oil production is reduced for a relatively decent amount of time (12-24 months) by, hmmmm, say 15% (note from PG, this is well above the 10% reduction for greater than 90 days that was described as a "nightmare scenario" a few posts back by experts...and these numbers are in line with the GOMEX oil supply outage predictions.)
> 2. 1,000,000+ people are out of work. They may not be placed on the unemployment rolls due to bureaucratic magic, but they are nonetheless out of work, and most without somewhere to live.
> 3. The primary shipping point for goods delivered to the central part of the country is likely out of commission for 12-24 months.
> 4. Traffic to the affected area is restricted due to roads, especially the interstates like I-10, being destroyed for 24-36 months, WITH rapid rebuilding. (Note from PG, this is especially true of the LOOP/Fourchon areas...getting supplies in there via ground to fix anything will not happen for a long while).
> 5. Oil company exploration plans are extended for a few months due to sorting out hurricane damage.
> 6. Refinery output looks like it will be curtailed by 20% or more for several weeks because of power outages and infrastructural damage.

7. Shipbuilding (including naval boats, oil rigs, platforms, etc.) is hampered by the loss of multiple shipbuilding facilities in the affected area.
8. In a very tight steel market, demand begins to surge as rebuilding of the infrastructure begins.
9. The same thing happens in the cement market.
10. Grain exports are reduced as the other international ports cannot take up the slack caused by the loss of New Orleans, or the costs incurred shipping by truck instead of via the river are much higher.
11. Gasoline, diesel and heating oil distribution to areas via the Port of New Orleans have ceased for the foreseeable future. This is especially true until the power can be restored so we can see if the pipelines are functional. Without power, we cannot tell anything, as they have to be pressured up.

What does the loss of GNO, Pascagoula and the oil platforms do to things like the economy, gasoline prices, US oil demand and the world supply? What does 1,000,000+ unemployed do to the economy? How about 1.5M homeless? What kind of a burden does that put on what little safety net the government offers people?

And where does the lack of sufficient oil supply figure into each of these items? You need energy to find solutions and other alternative sources of energy!

So much to think about, isn't there?

In sum, these are the questions we need to answer, as a nation, in order to understand the (perhaps very) tough road ahead we all face with regard to energy. Whether Katrina gives us a respite to regroup (because of destroyed demand due to a recession/depression) and solve our problems or not, we still face serious, serious energy problems.

The solutions? There are myriad policy options, we just have to motivate the people who represent us to make the *right* ones.

Technorati Tags: peak oil, oil, Katrina, Hurricane Katrina, gas prices.