Institute of Energy Professionals

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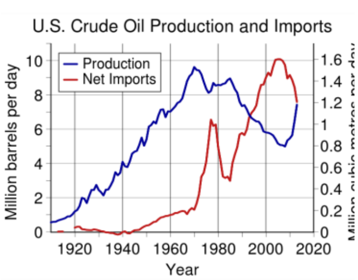
Energy Issues

IEP Newsletter

INSIDE THIS ISSUE:

Increased production results in lower crude prices



U.S. Imports drop off as domestic production increases

Why Lower Energy Prices Does Not Always Mean an Improved Economy

By: Thomas D. Mull, PE, PEM, CEM

(Source: Wall Street Journal - February 2015)

In December 2014 the International Monetary Fund said that less expensive energy could add 1% to the GNP of most industrialized nations. While portions of the economies in certain countries are growing as a result of lower oil prices, the beneficial impact of lower priced oil is not being seen by all consumers.

Governments in Asia, Europe and South America have taken actions that have offset some or all of the expected price reductions. Following are examples of how selected countries have responded in the form of increased taxes or reduced subsidies.

– China has raised fuel consumption taxes 50% since November 2014.

– Within the past six months Japan has raised taxes resulting in only a 15% reduction in prices, as compared to a 40% reduction in the U.S.

– European countries have also raised taxes. The price of premium gasoline in the UK has dropped only by 29% and 32% in France.

– Brazil has reduced subsidies and raised taxes, having a net impact of raising prices 7%, in an effort to help its economy

– Indonesia has eliminated subsidies altogether, causing fuel prices to rise dramatically.

Winners and Losers of Lower Prices

When any major commodity experiences large fluctuations in pricing, there will be perceived winners and losers. Oil and natural gas are no different. Following are several winners and losers from the recent lower energy prices.

Winners:

– Consumers, via lower oil and natural gas prices along with other commodities made from oil

– Companies dependent upon oil for operation, i.e. car/truck manufacturers, transportation companies, etc.

– Retailers, because of more spendable income for consumers. Household income in France rose by 1.5% in December. Compared to the previous year, sales across the Eurozone were up by 2.8% in December.

– U.S. – Increased production reduces the balance of trade deficit and enhances energy security.

Losers:

– Those countries in which oil and natural gas revenues are a major part of their economies (Middle East, Russia, Venezuela, Libya, etc.)

– Oil companies – investors, producers, workers, etc.

– Oil is a major factor in slowing the rate of inflation. As oil prices lower inflation expectations, it could dampen the

Why Lower Energy Prices Does Not Always Mean an Improved Economy *(continued)*

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impact easy money polices proposed by central banks in Europe and Japan in an effort to grow their economies.

The recent drop in energy prices has been beneficial. In those countries where where governments have not substantially interceded to mitigate their impact, the consumer now has more disposable income. This should result in additional sales of durable and consumer goods, thereby improving their economic outlook.

As oil prices lower inflation expectations, it could dampen the efforts of European and Japanese governments to grow their economies.

Fracking Update

By: IEP Staff Writer

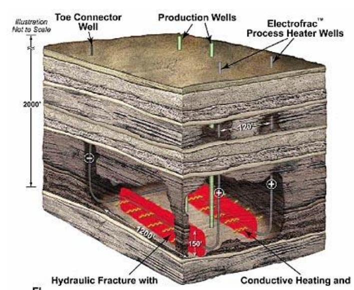
(Source: Pipeline & Gas Journal - November 2014)

(*In the spring 2014 IEP Newsletter there was an article entitled Fracking – Economic Boom or Environmental Bust. Following is an update to that article.)*

In a Nicholas School of the Environment study funded by the National Science Foundation, Duke University, and others, Ohio State University researchers* have identified the probable source of most natural gas contamination in domestic water sources near hydraulic fracturing sites. While natural gas does occur in elevated levels naturally, there was clear evidence that human interaction played a part in the selected sites. However, their data suggested that the contamination was not the result of horizontal drilling or fracking, but the result of inadequate casing and cementing of the wells.

According to the researchers, many of the leaks likely occurred when natural gas traveled up the outside of the borehole and was then introduced into the aquifer. The researcher noted that this was relatively good news, in that future problems can be avoided by following proven construction techniques for improving the integrity of the wells.

* *The research team was composed or researchers from Ohio State, Duke, Stanford, Dartmouth and the University of Rochester.*



Typical Fracking Operation

Fracking operations are increasing. China, Argentina, Ireland Scotland, South Africa, and others are beginning fracking operations.

Bakken Drilling Site
(Courtesy of USGS)

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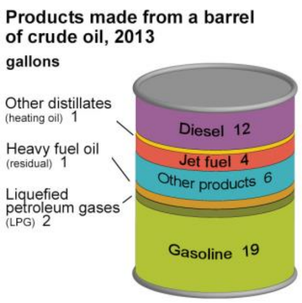

Fuels from Crude Oil

PEM
Professional Energy Manager

IEP Facts: *There are PEM in more than twenty-five (25) countries.*

Crude Oil Prices Increase

By: Thomas D. Mull, PE, PEM, CEM

(Source: Wall Street Journal - February 4, 2015)

The recent decline in crude oil prices *may* have bottomed out. From June of 2014 to early 2015 the price fell by 53%. With a low point below $50 a barrel, the price jumped 7% ($53.05 per barrel) on February 3rd on the New York Mercantile Exchange. This increase has been fueled by developments that point to a slowdown in production. Chief among these are:

- Announced spending cuts on new projects and existing operations by major producers
- A drop to a three year low in the number of rigs drilling for oil in the U.S.

An additional factor impacting the price increase is a strike by oil workers that started at a Shell refinery and has spread to several others U.S. refineries.

Whether this is the first of several bumps in the price remains to be seen. At least one major financial manager with $20 billion (U.S.) in investments anticipates that the price of crude will increase to $60 per barrel by the end of 2015.

With hydraulic fracturing starting to develop in countries such as China, South Africa, Argentina, Ireland, Scotland and others, the supply of oil will remain high for some time. This anticipated supply should keep prices down to levels not seen in some countries for the last six years.

Keep Your Profile Updated

It is absolutely essential that everyone keep their contact information up to date in their IEP profile. Every quarter IEP provides a *Newsletter* to its members, along with PEM renewal notifications, for those whose certifications are up for renewal. Unless your e-mail and physical mailing addresses are current, you may not receive this information and your certification may lapse. If your contact information has changed, please contact Dan Mull at danmull@theiep.org with this data.

Be a Contributor

IEP needs your support. For over three years we have provided quarterly Newsletters such as this. It is our goal to provide timely and accurate information along with facts and case studies that can assist you in your energy efforts. IEP board members are continually developing timely articles. However, we need additional case studies. If you have a project or program that you would like to have highlighted in a case study let us know. Note that publication of a case study will provide three (3) of the ten (10) points needed for re-certification.

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