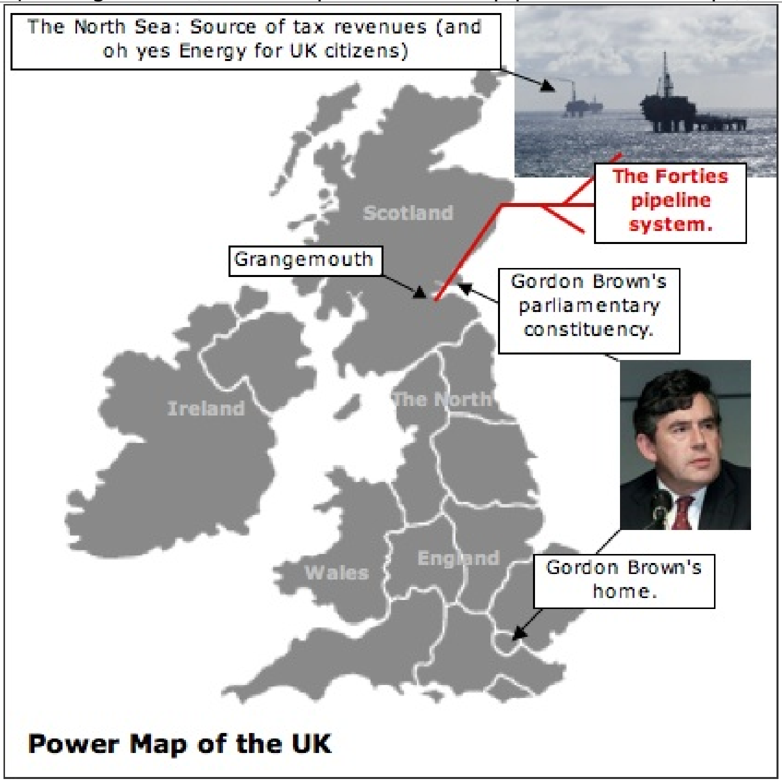
Grangemouth/Forties Update: Forties pipeline remains shut down (Thread 2)

Posted by Euan Mearns on April 27, 2008 - 11:01am in The Oil Drum: Europe
Topic: Policy/Politics
Tags: forties pipeline, gas prices, gas supply, gasoline, grangemouth, oil, oil prices, refineries, scotland, strike action [list all tags]

Make sure to check out our Grangemouth/Forties poll--use this thread as the comment thread for it.

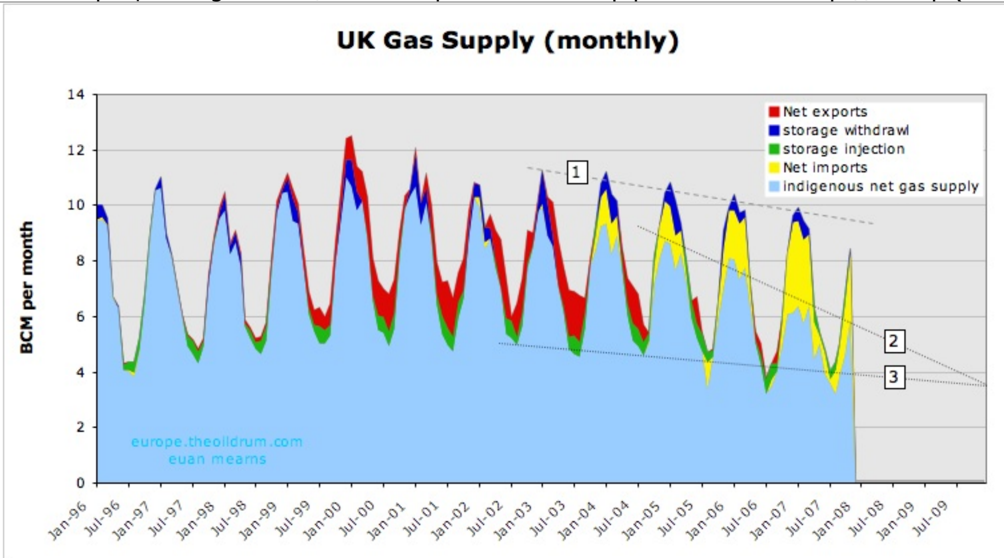
Latest:
• Grangemouth oil refinery is shutdown.
• **The Forties Pipeline is shutdown**
• Over 60 North Sea oil and gas fields are shutdown.
• About 700,000 bpd oil production lost costing £40 million / day @ $110 per barrel
• About 70 million cubic meters natural gas production lost per day costing £42 million / day @ 60 p / therm
• BP, Shell, Exxon-Mobil, BG Group, Conoco-Philips, Chevron-Texaco, Total, Marathon, Tallisman, Nexen, Venture, Dana and many more companies affected
• Global energy prices rise
• **Rural Scottish economy hit hardest by fuel shortages**
• Risk level is raised throughout the system
• Worker's grievance is unresolved
• **Population calm, politicians panic, fuel rationing looms?**



While the fate of energy flows into Britain were being sealed on Monday and Tuesday this week, Gordon Brown was pre-occupied with the past, let alone the present or the future, trying desperately to undo tax muddles that he himself created. Gordon Brown will be remembered as one of the greatest Followers this country ever had.

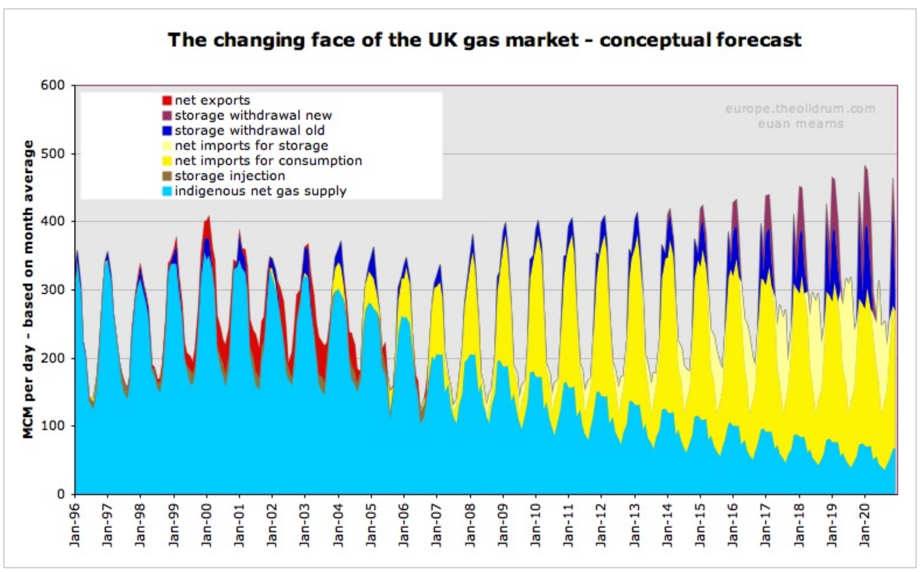
BP have begun the process of closing the Forties Pipeline according to this **Reuters report**. This is some 30 hours in advance of the planned 2 day strike by 1200 workers at Grangemouth Oil Refinery operated by private equity firm Ineos. The closure of the Forties Pipeline will likely result in closure of around 60 offshore oil and gas fields that feed oil and condensate into the pipeline. Around 700,000 bpd oil and 70 million cubic meters (MCM) per day gas production will be lost costing UK plc around £90 million per day at spot prices.

It is relatively straight forward to shut down the pipeline and all the fields that feed it, but the process of restarting production will likely be significantly more complex. It seems possible that up to 6 days production may be lost. BP once owned and operated the Grangemouth refinery and the Forties pipeline in addition to the off shore Forties Field. In 2003 BP sold the refinery to private equity firm Ineos and the Forties field to Apache corporation. This is a tightly coupled complex system best operated by a single responsible owner. The pipeline terminal at Kinneil depends on power from the refinery to operate, hence with closure of the refinery the pipeline and all associated infrastructure must now close. Questions should be asked about the wisdom of allowing the dependency of around one half of UK North Sea production to fall into the hands of a private equity investor.



A note on gas supply and demand. *Annual gas demand is cyclic reaching a maximum in the winter months Dec-Feb. Since we are now past the peak demand period this will make it easier to source gas by cycling up the remaining UK production and by asking the Norwegians to raise their gas production. However, persistent high spot prices this spring seem to betray un-seasonal tightness of gas supply in the* ***The European Gas Market****. 1 = falling demand and 2&3 = falling indigenous gas supplies. Where might this end? See below.*

A glimpse of the future:



This is an un-audited draft model showing how UK gas supplies may evolve. In future we need not worry so much about UK strikes since we will no longer be producing significant quantities of gas. We will need to worry about missile strikes in the countries from where we are destined to import LNG. For a number of years Norway will be a vital supplier of natural gas to the UK. But their gas production may start to decline from 2009.

With price of Westexas Intermediate crossing $120 / barrel and UK day ahead gas prices pushing 69p / therm the cost of this action will be felt by all gas and petrol consumers in the UK and further afield. The UK government has either been wholly ignorant of or indifferent towards the consequences of this dispute.

At winters end gas storage is run down. From current stock levels, short range storage may produce 18 MCM per day for 2.5 days, medium range storage may provide about 27 MCM / day for around 6 days and long range storage around 42 MCM / day for about 21 days. Fortunately, mild spring weather will ease the demand for natural gas.

I would estimate the value of potential lost production to be approximately £40 million per day for oil and £50 million per day for gas (at spot prices). **Platts** report that the Forties Pipeline could be disrupted for 6 days as a result of the strike. The potential losses to oil companies and to the government's lost tax revenues seem wholly disproportionate to the grievance of the Grangemouth workers.

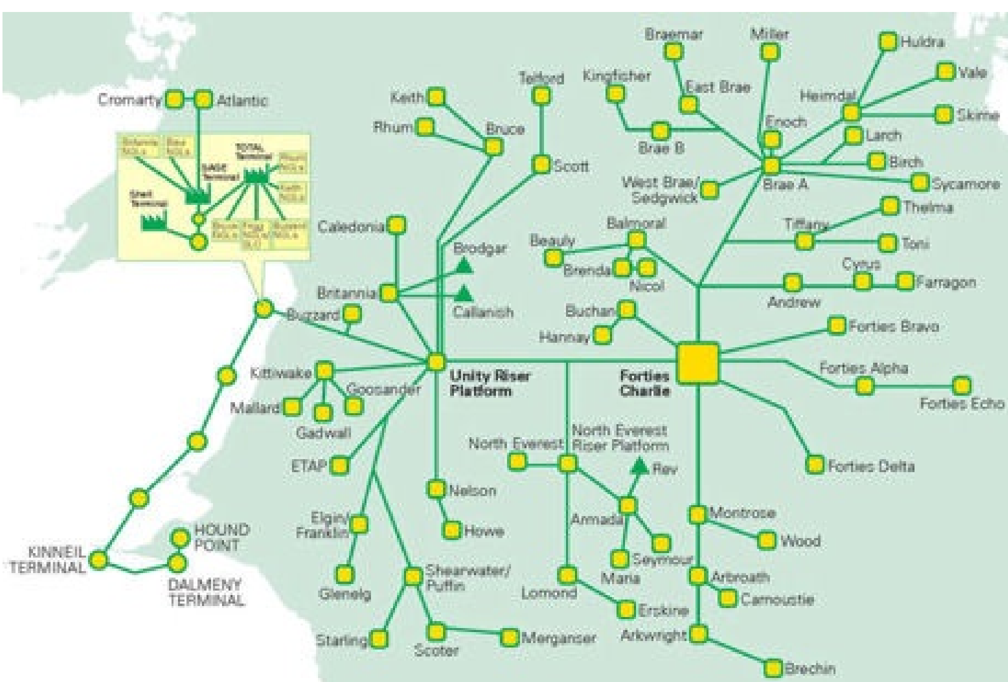
It is the Westminster government that has responsibility for UK energy matters and taxation.

The original TOD thread is **here**, and thanks to all posters for their contributions and links.

Grangemouth lies at the end of the Forties oil pipeline system that gathers oil (and liquids) from oil and gas fields throughout a large area of the Central North Sea. Whilst Grangemouth processes around 200,000 bpd the pipeline system handles around 700,000 bpd and according to this **CNN report**, a BP spokesman has said they may have to shut down the whole pipeline system. With the global oil market and **European gas market** already stretched, the impact of this dispute may reverberate around the world.

Why Grangemouth is important

Grangemouth is much more that an oil refinery. Originally operated by BP, Grangemouth became an integral part of the Forties oil production, transportation, refining and export system. BP has since sold the Forties oil field to Apache corporation and the refinery to Ineos but it still operates the pipeline and a number of the oil and gas fields that feed into it.



Grangemouth oil refinery lies close to the Kinneil terminal and is an integral part of this massive oil and gas production and transportation system.

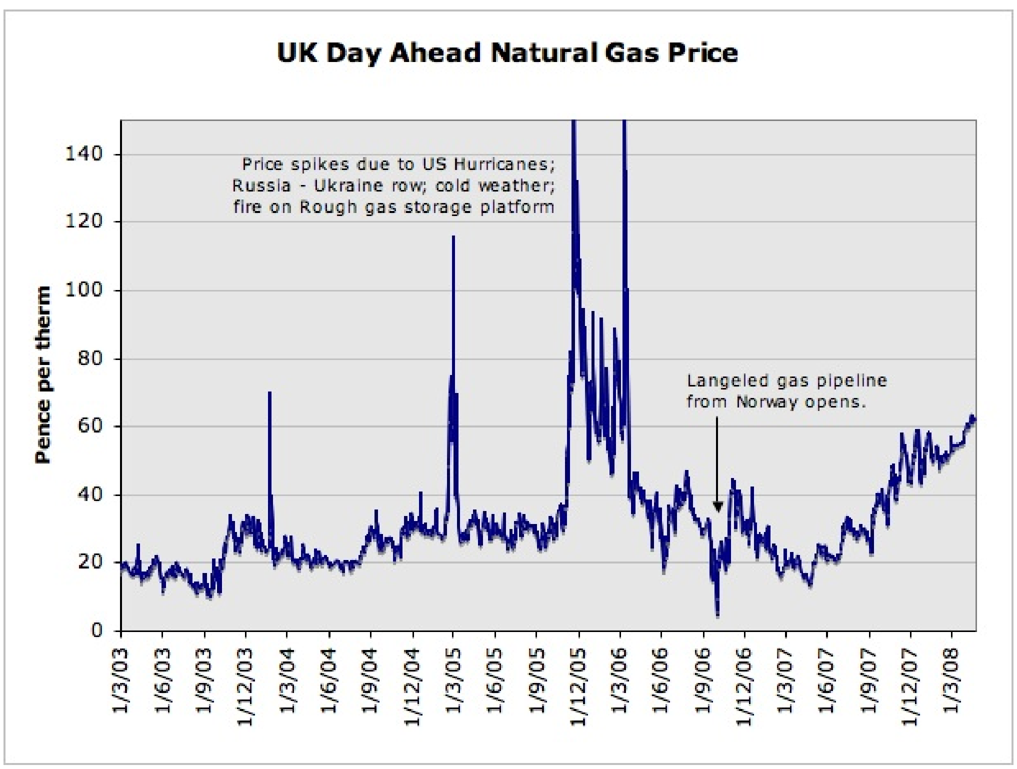
Ineos have reported that if the refinery is closed it may take over a week to restart. So a two day dispute over pensions may have a disproportionate impact.

If as reported by CNN, the whole Forties pipeline system were to close then this will shut down about half of the UK oil and a significant amount of gas production. World oil supplies are already stretched and this will push prices even higher - but the UK will be able to buy oil on the international market. I have heard that BP is trying to determine whether the Hound Point terminal has the storage capacity to handle the flow and offload from there without taking the system down. The thinking is, if only the Grangemouth refinery shuts down, and Hound Point and its oil storage facility operate normally, oil and gas production losses could be minimised.

The situation with natural gas is much different. Prices have been rising steadily this year betraying tightness in the European and Global gas markets. At the end of the winter UK and European **gas storage** is run down and the UK may struggle to maintain gas supplies.

This is what one of TOD's many friends had to say:

> I don't know about the refinery side, but having worked at St Fergus for a year or so, I can vouch for the fact that the ability to process gas is linked to the ability to export the liquid ends via Mossmorran and Grangemouth. There are three St Fergus gas processing sites and each has different links to the downstream liquids market.
>
> It gets complex depending on exactly what facilities are offline, and there are other things that can be done like shutdown fields producing wet gas and condensate and limit gas coming in to dry gas from FLAGS/Fulmar line and then 'optimise' the gas processing to 'spike' as much of the heavier ends as possible into the gas network. That can limit the volume of liquids they need to push down the pipelines towards Grangemouth but can only go so far if there is a complete shutdown.



UK "spot gas prices" have been rising steadily for a year as UK domestic supplies continue to *run down and a cold winter in N America and E Asia has caused increased competition for LNG deliveries.*

Domestic users need not worry since they will always be the last to get cut off. But in the event of a natural gas shortage, those industrial users who pay the reduced interruptible supply tariff may just find their supplies interrupted.

Consequences for fuel supplies in Scotland and North England

Grangemouth is the only oil refinery in Scotland producing gasoline, diesel, fuel oil and jet fuel for the whole of Scotland, Northern Ireland and Northern England. UK has ample stocks of refined fuel and so the real issue for Scotland is the distribution of these stocks. This has been the main focus of the main stream news thus far and panic buying has already led to local gasoline shortages and **[profiteering at the pump](#)**.

Cause of the strike

The strike is about Ineos proposals to adjust the terms of the final salary pension scheme for workers at the refinery. Why then can Ineos not afford to fully fund the existing pension scheme? High feed stock costs for their refining operations, high energy costs, rising interest costs, high inflation throughout the engineering sector, adverse currency movements and zero stock market returns since the year 2000 may all help explain the dilemma that Ineos finds itself in.

FOOTSIE courtesy of ***Yahoo Finance****. In a world that has produced zero to negative stock market capital returns since the year 2000, is it reasonable for any workers to cling to unrealistic pension promises struck decades ago that are founded upon the notion of limitless supply of cheap fossil fuel?*

The majority if not all of these factors are rooted in the inability of planet Earth to now provide the growth in low cost fossil fuel energy that powered economic growth and wealth creation throughout the 20th Century. It is no longer a realistic expectation for any workers to be granted a generous pension at age 60 when OECD life expectancy is now over 80. The free fossil fuel energy slaves that created this aspiration in the 20th Century are now getting tired and will soon be exhausted.

It is the failure of government and leadership throughout the UK and the World to recognise and tackle the unfolding energy crisis that has led us to Grangemouth.

*With **reported debt of around €9 billion**, let us hope that Ineos has the financial strength and will to weather this storm.*