By: Alex Mills **February 11, 2016**

Drop In Prices Overshadow Proposed Oil Tax, Court Ruling

President Obama's proposed a 2017 budget that called for a new $10-per-barrel tax on U.S. crude oil and the U.S. Supreme Court's decision to delay implementation of the Clean Power Plan were big news last week, but for oil producers the decline of crude oil prices below $30 had everyone's upmost attention.

Obama's tax was said to be "dead on arrival" by most Republicans and even some Democrats.

The Supreme Court's decision had everyone puzzled, because it was the first time that the nation's highest court had delayed implementation of a regulation before the Court of Appeals has issued its opinion. However, the 27 states that filed the lawsuit were delighted the Clean Power Plan has been delayed.

Meanwhile, back in the oil patch, posted crude oil prices in most regions of Texas averaged about $24 per barrel and trading on the New York Mercantile Exchange (NYMEX) for 30-day delivery was $27.45 on Feb. 11.

Huge crude oil inventories worldwide and in the U.S. were the primary forces driving prices even lower. Inventories at Cushing, Oklahoma rose 523,000 barrels to an all-time high just shy of 65 million barrels, according to the Energy Information Administration (EIA). Nationwide crude oil stockpiles were 502 million barrels.

The world is so awash with crude oil BP CEO Bob Dudley said people will be filling their 'swimming pools' with it by the end of the year.

Traders see the huge supply as a potentially profitable opportunity by turning supertankers into temporary floating storage facilities. Traders exploit a price structure called 'super-contango' to profit from storing oil at sea.

During the last price collapse in 2008 and 2009, trading houses made billions of dollars by stockpiling crude at sea. At the peak of the floating storage spree, sheltered anchorages in the North Sea, the Persian Gulf, the Singapore Strait and off South Africa each hosted dozens of supertankers.

Floating storage is profitable when the market reaches a condition traders call a super-contango. In a contango market, prices of oil for delivery today are lower than those in future months. Buyers with access to storage can fill up their tanks with cheap crude and sell higher-priced futures contracts to lock in a profit. This has been happening throughout the oil slump using onshore tanks, which are now starting to fill up.

As onshore storage rises toward full capacity, the market is slowly moving into super-contango territory, when one-year forward prices trade at a premium of $10 per barrel or more. The price difference between WTI futures for March delivery and one year later was $11.49 Feb. 10, the highest in almost a year. The gap was as wide as $24 in 2009.

Bill Thomas, chief executive at EOG Resources, the largest oil producer in Texas, told attendees at an industry conference in Houston that his company won't start boosting output the first time oil hits $60 per barrel. "We're going to make sure the market is in good shape, it's balanced, and we've got a future," Thomas said. "We don't want to ramp it up and drive the price of oil down again."

When prices do rise again, the memory of the crash will still be fresh, which will make everyone from bankers to former roughnecks wary about getting involved with the oil industry again. "It's not really like just turning on the light switch," Thomas said. "The industry kind of tried that last year and it didn't work. We're not going to do that again."

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