Energy Intelligence

September 5, 2022

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INTERNATIONAL OIL DAILY®

CONTENTS

Germany Throws Weight Behind Italy's Gas Cap Pitch

Italy and Germany are pushing for an EU-wide gas price cap ahead of an emergency EU energy meeting as individual member states rolled out unprecedented bailouts of industry and consumers to avoid a winter of discontent.

Germany is supporting Italy in its insistence on an EU-wide gas price cap and backing the potential decoupling of gas from the price of electricity, German MEP Ismail Ertug told Energy Intelligence on the sidelines of the Gastech conference in Milan.

Ertug, who sits on the European Parliament's energy committee, echoed earlier arguments made by Manilo di Stefano, Italy's undersecretary of state for foreign affairs earlier in the day.

"Italy was proposing a price cap on gas for months and we are confident these measures will be taken in the near future," di Stefano told delegates Monday.

Unprecedented moves by European states have seen both Finland and Sweden offer €10 billion ($10 billion) and €23.4 billion, respectively, in liquidity guarantees to their power companies on Sep. 4, with still no sign of Russia's Gazprom restarting gas flows via the Nord Stream pipeline.

German officials said they would impose an energy windfall tax to fund a €65 billion fund to help consumers and industry.

Such measures no doubt helped fuel the growing support among European diplomats to cap gas prices, which is reflected in the latest draft proposal from the European Commission ahead of the upcoming meeting of EU energy ministers.

In a draft proposal finalized late Sunday and seen by Energy Intelligence, the EU has dramatically expanded the suite of options members will debate when they meet later this week in Brussels.

An earlier proposal focused on caps to electricity prices but generally proposed leaving gas and its role in power markets alone.

The latest draft, most importantly, includes decoupling of power prices from the price of gas.

Specifically, a temporary cap on the "price of imported gas from specific jurisdictions" and temporarily excluding electricity production from gas from price setting in the electricity market.

Others involve increasing liquidity in the market; coordinated demand reductions for electricity use; temporarily capping the electricity price; and finally assessing options on the use of the EU Emissions Trading System.

Energy ministers from European countries with less dependence on Russia took the opportunity to chide those who chose cheap Russian gas over more expensive — but more stable — options such as LNG.

"Some of the choices made over the last few years have proved disastrous for Europe," Portuguese Energy Minister Joao Galamba told delegates.

Nevertheless, he backed EU-wide efforts to solve the energy crisis. "We need European solidarity — European unity is key," he said.

Germany, which had resisted earlier suggestions that it was too dependent on Russian gas, has moved quickly to diversify its gas supplies. The government has moved ahead at least six proposals from private players for LNG receiving terminals and companies have begun lining up supply.

Monday, Germany's Uniper signed the latest agreement, a deal with Australia's Woodside to supply 1 billion cubic meters of natural gas per year to Europe.

LNG shipments would start from January next year and could run until 2039.

Tom Pepper, Milan

Opec-Plus Backs Symbolic Output Cut

Opec-plus on Monday said it would revert to August oil production levels in October, implying an official 100,000 barrel per day output cut in a move aimed at supporting "the market's stability."

The alliance, in a statement, said last month's decision to raise output in September had been intended only for a single month.

Realistically, the decision will have little impact on the physical oil market given that only a few countries have been able to meet their production quotas.

Energy Intelligence understands that Opec-plus ministers hope the decision will send a strong signal to the market that the alliance is serious about implementing further cuts in the future, if required.

Delegates described Monday's ministerial meeting as a smooth affair with all countries agreeing that the current high levels of market volatility were "psychologically" harmful to the oil market.

"The Opec and non-Opec ministerial meeting noted the adverse impact of volatility and the decline in liquidity on the current oil market and the need to support the market's stability and its efficient functioning," according to the final communiqué issued by the Opec Secretariat.

Benchmark Brent crude prices were up 4.3% at more than $96 per barrel following the announcement.

Physical Supply

The symbolic cut of 100,000 b/d will have minimal impact on physical supply. Collectively the group has been unable to reach its target for many months, falling some 2.8 million b/d short in July.

According to Energy Intelligence estimates, the decision could remove about 44,000 b/d of oil from the market, given that most Opec-plus members were already pumping at levels well below their monthly quotas.

Monday's decision sent a strong message that the group is ready to defend its control of oil markets from what many delegates saw as excessive Western intervention, including the recent proposal to implement price caps on Russian crude.

Russia's Deputy Prime Minister Alexander Novak told the Rossiya 24 TV channel in response to the question about further possible cuts by the group, that Opec-plus doesn't target any price levels but rather seeks market balance to ensure that there is neither a deficit nor a surplus.

"The decision demonstrated that we have a flexible instrument that allows to take into consideration both the necessity to increase production, or to cut it," said Novak. He added that the group will continue to monitor market developments and pointed to numerous uncertainties, including about production by the non-Opec-plus countries and the planned price cap on Russian oil.

Psychological Barrier

The group's decision Monday quashed assumptions stated by some US officials that Opec-plus could further increase supplies to market following their 100,000 b/d increase last month.

One delegate described it as "breaking a psychological market barrier."

In a statement after the meeting, the Biden administration touted its efforts to lower oil prices by increasing supplies through increased US production and releases from the Strategic Petroleum Reserve.

“President Biden is determined to continue to take every step necessary to shore up energy supplies and lower energy prices,” the White House said.

For 2022, data from Opec’s Joint Technical Committee showed a forecast surplus of 400,000 b/d, but since the market is still facing a problem of disconnect between fundamentals and price, Opec-plus’ future decisions cannot be easily predicted by supply/demand balances alone.

The secretariat’s communiqué echoed comments from Saudi Arabia’s Energy Minister Prince Abdulaziz bin Salman last month, where he warned of the adverse effects of a yo-yoing market.

"Opec-plus has the flexibility and the commitment among members within the Declaration of Cooperation to deal with market challenges and provide guidance, including cutting production at any time and in different forms as has been clearly demonstrated in 2020 and 2021," Prince Abdulaziz told Energy Intelligence in an interview in late August.

The next Opec-plus meeting is due to take place on Oct. 5.

However, Monday's statement said that — given the volatile market situation — it had been agreed that the group’s chairman, Prince Abdulaziz, could call for an emergency meeting if needed.

Amena Bakr, Dubai and Rafiq Latta, Nicosia

Nigeria Awards New Contract to Tackle Oil Theft

Youths and gangs in the Niger Delta area of Nigeria are threatening to disrupt oil production in protest against a new government contract to improve the security of oil pipelines and reduce theft of crude oil.

Nigerian National Petroleum Corp. (NNPC) has awarded the contract to a private company linked to retired militant Government Ekpemupolo, who is also known as Tompolo.

The contract covers all pipeline systems in the Niger Delta and is reportedly worth around $10 million.

Nigeria's government is desperate to curb oil theft as it struggles with declining production after neglecting the problem in recent years.

Legal output hit 1.31 million barrels per day of crude and condensate in July, down from 1.67 million b/d in January, according to government data.

Output peaked at 2.5 million b/d in 2010 and still stood at 2.1 million b/d as recently as 2019.

The protests in the Niger Delta are allegedly being driven by vested interests who are lobbying for inclusion in contract patronage.

Former militants from the states of Bayelsa, Rivers and Akwa Ibom are said to be unhappy that Tompolo — who hails from Delta state — will control security contracts in their areas.

Some of Nigeria's private pipeline security companies appear more professional than others.

Clashes between competing interests have disrupted production in the past.

Joint Task Force

The country's federally funded Joint Task Force (JTF) — comprised of the army, navy, air force and mobile police — has long been tasked with combating oil theft in the Niger Delta. It patrolled areas with pipelines and was supposed to protect system operators, who also have varying private security arrangements.

The 250,000 b/d Forcados pipeline system — operated by indigenous firms and Shell — has had the best performance with theft recently running at 13% of production, although rates have varied between 5% and 30% over the last three years.

The Forcados operators pay private security firm Ocean Marine Solutions as their main protector, although companies linked to Tompolo are also said to be involved.

Arrangements at the Brass and Bonny Light system are less transparent, but legal production from the Bonny Light system has shrunk to less than 30,000 b/d.

One source told Energy Intelligence that the new arrangement, under which the operators will fund an extra layer of security, is intended to incentivize the JTF to provide more effective protection in tandem with Tompolo's company.

"The JTF forces have been given performance targets. If theft is not less than 5% of claimed injections in the first three months, then the project will be reviewed or disbanded," one oil executive close to the matter told Energy Intelligence.

One network could see its security costs double to close to $50 million a month, the source told Energy Intelligence.

However, it remains to be seen whether the additional money paid will lead to the desired improvement in the JTF's performance.

Since oil prices soared this year, there has been an increase in the volume of crude siphoned off for the illegal export market, at the expense of the volumes diverted to clandestine "bush refineries" that produce diesel for sale in the local market.

A source close to the militants told Energy Intelligence that some senior JTF officials who ran protection rackets around the bush refineries are directly involved in export operations,

"They have become shareholders … rather than gatekeepers," the source said.

Christina Katsouris, London

Nord Stream Outage Sends EU Gas Prices Soaring

The prolonged shutdown of Gazprom’s Nord Stream gas export pipeline and uncertainty around the restart timeline sent European spot prices soaring Monday.

European energy ministers will reportedly discuss special measures to curb the growth in energy prices, including gas price caps and suspension of power derivatives trading, at a meeting on Friday.

The front-month October Dutch TTF gas futures contract opened at €275 per megawatt hour ($79 per million Btu) on Monday, up more than €60 from its close at €214.70/MWh Friday.

It traded as high as €284.50/MWh intraday before closing at €242.70/MWh.

It is not clear if and when Gazprom might restart Nord Stream. The Russian piped gas export monopoly attributed the problem to an oil leak on the last operational gas turbine moving gas through the pipeline. Turbine manufacturer Siemens Energy says such a leak is a routine occurrence that does not require a shutdown of the system and could easily be fixed onsite.

European gas prices had fallen last week after EU gas stocks surpassed targeted 80% fill levels more than one month ahead of schedule. EU gas stocks are 81.55% full as of Sep. 3, according to Gas Infrastructure Europe.

Moscow Blames Sanctions

Moscow again blamed Western sanctions for the Nord Stream supply cuts seen since mid-June. “You know that the problems with gas shipment resulted from the sanctions that Western countries, including Germany and UK, imposed against our country and several companies,” Kremlin spokesman Dmitry Peskov told reporters on Monday. “There are no other reasons that would lead to problems with shipping.”

The sanctions hinder the repair and maintenance of Siemens gas turbines, Moscow insists. Because of the sanctions, Gazprom only has one operational gas turbine which also requires repairs from time to time, according to Peskov.

If the sanctions were lifted, the turbines could be repaired and Nord Stream could resume operations, Peskov said. It is not clear if this means that simply fixing the oil leak is enough for Nord Stream to restart at the restricted levels of 20% capacity.

European politicians have argued the Nord Stream flow cuts can't be justified by purely technical reasons and suggest that Gazprom has been restricting its own exports deliberately to put greater pressure on the EU to weaken its military support for Ukraine and make concessions on sanctions against Russia.

While halting Nord Stream gas flows, Gazprom hasn't increased supplies via the other key route to Europe, the Ukrainian transit, where flows remained at slightly above 40 million cubic meters on Monday, or around 55% of available capacity.

Besides, the record-high prices help Gazprom generate record profits, which in the first half of this year already exceeded full-year profits of 2021, allowing Gazprom to plan huge interim dividends of around $20 billion.

Staff Reports

Indonesia Hikes Fuel Prices to Manage Ballooning Subsidy Budget

Indonesia has increased retail subsidized fuel prices by about 30% to lower consumption and manage fiscal pressure from a ballooning subsidy budget amid high oil prices and a depreciating rupiah.

The decision announced over the weekend prompted demonstrations in the country with student groups and unions at the forefront of the movement.

The measure comes as the budget for subsidies and fuel compensation has more than tripled from 152.5 trillion rupiah ($10.2 billion) to 502.4 trillion rupiah this year, and it will continue to increase, President Joko Widodo said in a statement.

Projections from the ministry of finance indicate the annual budget for subsidies will be between 591 trillion rupiah and 649 trillion rupiah, assuming the average crude price stays between $85 and $100 per barrel the rest of the year.

Indonesia is a net importer of crude and transportation fuels on the back of a steep decline in production over the past decades.

Indonesia's oil production, which peaked at around 1.5 million barrels per day in the mid-1990s, dropped to 660,000 b/d last year, while gas production came in at 982,000 barrels of oil equivalent per day, or about 5.9 billion cubic feet per day.

Price Hike

The price of Ron 90 gasoline, sold as "Pertalite" by state-owned Pertamina, increased from 7,650 rupiah per liter to 10,000 rupiah/liter.

Diesel, colloquially known as Solar, increased from 5,150 rupiah/liter to 6,800 rupiah/liter.

The price of nonsubsidized Ron 92 gasoline also increased from 12,500 rupiah/liter to 14,500 rupiah/liter, reflecting higher crude prices.

These fuels are the most widely used in Indonesia.

Pertamina, which dominates the country's retail fuel market, said Pertalite and Solar amount to about 85% of the total national fuel consumption.

Consumption Boom

The consumption of subsidized fuel has boomed over recent months.

In August, 80% of the 23 million kiloliters of Pertalite allocated to meet projected demand in 2022 had been consumed, Energy Minister Arifin Tasrif said recently, adding that the country would run out of Pertalite by mid-October if nothing was done.

Greater consumption is partly due to rising economic activity following the Covid-19 pandemic.

It is also largely because wealthier people have been using subsidized fuels — although they were not entitled to — amid rising fuel prices.

Only cars with an engine of 1,500 cubic centimeters and below and motorcycles with an engine of 250 cubic centimeters and below are allowed to use subsidized fuels, but enforcement of these limits has been slack.

The government has recently increased controls at petrol stations to address this issue — and also plans to further restrict the purchase of Pertalite to cars with an engine of 1,400 cubic centimeters and below.

More than 70% of fuel subsidies are used by wealthier people who own cars, President Widodo said, adding that "state money should be prioritized for subsidies to underprivileged people."

Targeted Support

To compensate for the price hike, the ministry of finance unveiled a 24.2 trillion rupiah aid package targeting the most vulnerable.

About half will be distributed as monthly cash handouts to more than 20 million families, with the lion's share of the remainder spent on salary assistance for workers earning a monthly salary of 3.5 million rupiah or less.

Some 2 trillion rupiah will go toward subsidizing transport costs for motorcycle taxi drivers and fishermen.

"The government is committed that the use of subsidies which are people's money must be right on target, subsidies must be more profitable for the poor," Widodo said.

Marc Roussot, Singapore

Oil Edges Up on Opec-Plus Production Cut

Oil prices rose about 4% on Monday, extending gains as Opec-plus members agreed to a small production cut to bolster prices.

Brent crude futures for November delivery rose $3.53 to $96.55 per barrel, up 3.8%, by 11:07 a.m. ET (3:07 p.m. GMT).

US West Texas Intermediate crude was up $3.08, or 3.6%, at $89.98 after a 0.3% gain in the previous session. US markets are closed for a public holiday on Monday.

Opec-plus will reduce output for October by 100,000 barrels per day, amounting to only 0.1% of global demand, and also agreed they could meet any time to adjust production before the next scheduled meeting on Oct. 5.

Top Opec producer Saudi Arabia last month flagged the possibility of output cuts to address what it sees as exaggerated oil price declines.

"The bigger picture is that Opec-plus is producing well below its output target and this looks unlikely to change given that Angola and Nigeria, in particular, appear unable to return to pre-pandemic levels of production," Caroline Bain, chief commodities economist at Capital Economics, said.

Oil prices have fallen in the past three months from multiyear highs hit in March, pressured by concerns that interest rate increases and Covid-19 curbs in parts of China could slow global economic growth and dent oil demand.

Lockdown measures in China's southern technology hub of Shenzhen eased on Monday as new infections showed signs of stabilizing although the city remains on high vigilance.

Meanwhile, talks to revive the West's 2015 nuclear deal with Iran, potentially providing a supply boost from Iranian crude's returning to the market, have hit a new snag. The White House on Friday rejected Iran's call for a deal to be linked with closure of investigations by the UN nuclear watchdog, a Western diplomat said.

Use of oil in power generation is also expected to pick up, analysts said, as Russia's state-controlled Gazprom on Friday said it would stop pumping gas via the Nord Stream pipeline due to a fault.

The International Energy Agency last month raised its oil demand forecast for the year, partly because it expects gas-to-oil switching in some countries due to record natural gas and electricity prices. (Reuters)

IN BRIEF

Libya Pegs Output at 1.2 Million b/d

Libya's National Oil Corp. said its oil production reached 1.226 million b/d on Sep. 2, with an additional 54,000 b/d of condensate, following the reopening of key oil fields and ports in mid-July.

The country's politics remain fractious, however, after street battles erupted between rival groupings in the capital city of Tripoli in late August.

In a televised address on Aug. 29, Libya's caretaker Prime Minister Abdulhamid Dbeibeh called for national elections to reduce tensions.

Dbeibeh's legitimacy is being challenged by former Interior Minister Fathi Bashagha who has a base of support in eastern Libya.

Libya's August crude exports were running just below normal levels of 1.1 million b/d in August at around 940,000 b/d, according to a loading schedule obtained from a shipping source.

A preliminary loading schedule for September showed targeted exports of some 35.6 million bbl, or 1.19 million b/d.

Libya hopes to expand its oil production to 2.1 million b/d within five years and gas production to 4.1 Bcf/d, but substantial inflows of foreign investment will be required is to attain those goals.

Tom Pepper, London

Shell Sanctions Malaysian Gas Project

Shell has sanctioned the development of its Rosmari-Marjoram gas project off the coast of Bintulu, in the Malaysian state of Sarawak.

The project is designed to produce 800 MMcf/d of gas starting from 2026.

Rosmari-Marjoram consists of a subsea tie-back, an unmanned well head platform and an onshore gas plant at Bintulu.

The project also includes a 207 km sour wet gas offshore pipeline, one of the longest in the world.

Operations will be primarily powered by output from 240 solar panels, Shell said when announcing the decision.

In turn, the onshore plant that will remove sulfur from the Rosmari Marjoram gas stream before sending the treated gas to Petronas' Bintulu LNG Train 9, will draw primarily hydropower from the Sarawak grid system.

Diesel generators and batteries will be used as backup.

Rosmari-Marjoram is one of the strategic projects to ensure a sustained gas supply to the 30 million ton/yr Petronas LNG Complex, Shell said.

Shell has an 80% operated stake, while state-owned Petronas holds the remaining 20% interest.

Marc Roussot, Singapore

Rosneft Builds Two Aframax Tankers

Rosneft's Zvezda shipyard in Russia's Far East plans to make two Aframax tankers fully ready by the end of the year.

Speaking at the naming ceremony Monday, Zvezda General Director Sergei Tseluiko was quoted as saying that the vessels now would be tested before being transferred to the Rosnefteflot and Sovcomflot ship companies that had ordered the tankers.

Aframax tankers were not built in Russia before last year, when the first two were constructed and put into service.

To have its own tanker fleet is one of the key goals for Russia in light of the EU ban on insurance and financing for tankers that carry Russian oil to come into force later this year.

Zvezda is being developed by a consortium of Rosneft, Gazprombank and state Rosneftegas, which holds the government's stakes in Rosneft and Gazprom.

Rosneft says Zvezda has orders for more than 60 vessels in its portfolio, including also LNG tankers and nuclear icebreakers. Rosneft accounts for half of those orders.

The first two Aframax tankers were built with the help of South Korean partners, including Samsung Heavy Industries, but those companies may pull out of their partnerships in Russia because of the war in Ukraine.

Staff Reports

Santos Secures CCS Storage Permits Offshore Oz

Australian independent Santos has secured two greenhouse gas storage permits off the coast of Western Australia (WA), strengthening its strategy to develop three carbon capture and storage (CCS) hubs in Australia and East Timor.

Santos has a 50% operated stake in the G-9-AP Block, which covers an area of 3,589 sq km within the Carnarvon Basin. Chevron owns the remaining 50%.

“The permit creates potential new acreage for CCS beyond our Reindeer fields," Santos said in a statement. "This is particularly significant as our plans for a WA CCS hub at Reindeer and Devil Creek develop.”

Santos also has a 40% operated interest in the G-11-AP Block, which covers an area of 26,239 sq km within the Bonaparte Basin.

Chevron and SK E&S have a 30% stake each.

The block is located near Santos' Bayu-Undan CCS project for which front-end engineering and design work started earlier this year.

Work will now start to assess the storage potential in these permit areas.

CCS is a key element in Santos' strategy to achieve net-zero emissions by 2040.

Santos sanctioned its first CCS project called Moomba last year. The US$165 million onshore project will be capable of storing 1.7 million tons/yr of carbon dioxide in depleted gas reservoirs.

Marc Roussot, Singapore

Editor's Note: US Labor Day Holiday

Today's issue is published as a joint edition of *Oil Daily* and *International Oil Daily* due to the Labor Day holiday in the US. The usual review of oil and gas prices is not included.

DATA SNAPSHOT

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Equity Markets, Sep. 5, 2022

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