Petroleum news

page 5 Great Bear pad expansion plans approved; road location change OK'd

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DNR Commissioner Feige resigns, cites need to support her family


CORRI FEIGE

Alaska Department of Natural Resources Commissioner Corri Feige has resigned, effective June 30.

Gov. Mike Dunleavy said June 14 that he "regretfully accepted" Feige's resignation. He said she has served as commissioner since the beginning of his administration in 2018 — he appointed her to the position Nov. 14, 2018 — and is leaving to devote more time to her family.

"Commissioner Feige is a shining example of what public service can be. Her list of accomplishments during her three years at the helm of DNR was impactful to say the least," Dunleavy said. "She guided Alaska's resource development industries through a pandemic without placing their employees at risk, asserted Alaska's rightful ownership over submerged lands and positioned the state to be more self-reliant and food secure. Her legacy will be with Alaska for many years to come."

The governor will appoint an interim commissioner by June 30.

see **FEIGE RESIGNS** *page 10*

Hilcorp permits test wells in its southern Kenai Peninsula program

Hilcorp Alaska applied for a lease plan of operations for a program of stratigraphic test wells on the southern Kenai Peninsula (see story in June 12 issue of Petroleum News) and has begun permitting the wells. Hilcorp said in its lease plan of operations that the work is planned for this summer, June through August.

The company said in its lease plan of operations that it anticipates 18 stratigraphic test wells, seven on state subsurface leases and 11 on private surface lands and subsurface mineral estates, with the seven wells on state subsurface included in the lease plan of operations application.

This part of a continuing program of exploration: "Hilcorp and its contractors have successfully completed 28 identical stratigraphic test wells in the southern Kenai Peninsula area since 2017," the company said in its June 1 application to the Alaska Division of Oil and Gas.

The area indicated for the tests straddles the southern Kenai

see **TEST WELLS** *page 11*

Badami plan of development OK'd; Savant says drilling is possible

The unit is some 25 miles west of the Point Thomson unit and 30 miles east of Deadhorse on the Beaufort Sea coast. Savant succeeded BP as operator in 2008.

The Alaska Department of Natural Resources' Division of Oil and Gas has approved the plan of development for the Badami unit, operated by Savant Alaska, a Glacier Oil and Gas company, for the period July 16 through July 15, 2023.

The Badami unit was formed in March 1995 with BP Exploration (Alaska) as operator, the division said in its June 8 approval. The unit is some 25 miles west of the Point Thomson unit and 30 miles east of Deadhorse on the Beaufort Sea coast. Savant succeeded BP as operator in 2008.

The division said that as of April 30 cumulative production from Badami totaled 10.052 million barrels of oil, with average

see **BADAMI PLAN** *page 10*

FINANCE & ECONOMY

ANS stays above $120

New China COVID-19 lockdowns and Fed rate hike pare benchmark prices

By **STEVE SUTHERLIN**
Petroleum News

Alaska North Slope Crude closed at $127.77 per barrel June 8, but then joined West Texas Intermediate and Brent in a week-long slide after the city of Shanghai reinstated restrictions on movement to quarantine the spread of new COVID-19 cases, sparking uncertainty over fuel demand recovery in China.

The Chinese financial and industrial center of more than 25 million residents had just celebrated an easing of lockdowns at the beginning of June.

"Crude futures are also in an overbought condition and a corrective phase is definitely due," Dennis Kissler, BOK Financial senior vice president of trading told Bloomberg June 9. "Prices have to take a breather at some time and the new possible COVID issues in China are assisting this morning."

The slide accelerated June 15 as the U.S. Federal Reserve announced a 0.75% interest rate increase to fight inflation, sending ANS $2.24 lower to close at $121.91, as WTI plunged $3.62 to close at $115.31, and Brent slid $2.66 to close at $118.51.

The rate hike was the largest since 1994. Along with oil prices, U.S. equity markets fell leading into the Fed announcement.

"Inflation can't go down until it flattens out," Fed Chairman Jerome Powell said in a press conference, adding that inflation was surging due to

see **OIL PRICES** *page 8*

EXPLORATION & PRODUCTION

Colville POD approved

ConocoPhillips 2022 CRU plan of development runs through May 15, 2023

By **KAY CASHMAN**
Petroleum News


DEREK NOTTINGHAM

On June 8 Alaska's Division of Oil and Gas issued approval of ConocoPhillips Alaska's 2022 amended plan of development for the Colville River unit.

The company plans to drill two wells within the unit during the 2022 POD period, which is also called the 24th POD.

One well will target the Narwhal Participating Area, and another will be a waste disposal well drilled from the CD1 pad.

Additional wells might be drilled, but because of the challenges encountered drilling recent wells (particularly the Fiord West Kuparuk CD2-310 extended reach well), a pause in drilling will take place to identify solutions to these challenges, the approval letter said.

Planning for development of a new drill site called CD8 will continue during 2022. This new drill site will develop the Narwhal reservoir in the Fifth Expansion area of the Colville River unit (see map in pdf and print versions of this story).

The Narwhal is a Nanushuk play (also known as Putu, Titania or Tofkat) south of the Alpine

see **COLVILLE POD** *page 6*

PIPELINES & DOWNSTREAM

Refining squeeze

Even amid shortages and high prices, refiners aren't looking to expand

By **ALLEN BAKER**
For Petroleum News

"There hasn't been a refinery built in this country since the 1970s. I don't believe there will be a new petroleum refinery ever built in this country again."
— Chevron Corp. CEO Mike Wirth

Crack spreads are booming and refiners are showing huge profits. But the cash flow isn't being directed to new investments in the industry, and it likely won't be for some time, if ever.

In the United States, refinery capacity is down by 900,000 barrels a day, according to the Energy Information Administration, compared with the total at the end of 2019.

Refineries are expected to run at 94% of capacity in the third quarter, the EIA says. That's not a sustainable number for the long term, given maintenance and other downtime. Plus one big hurricane could sweep through the Gulf Coast infrastructure and reduce that in a hurry.

Despite looming shortages of retail fuel — and amid robust prices — refiners are planning to shut even more capacity, not add it. The big LyondellBasell Industries plant in Houston is

see **REFINING SQUEEZE** *page 11*

● GOVERNMENT

AOGCC grants CINGSA rule change request

After expressing concern over possibility of gas leakage from an old P&A well, IFP fish plant failed to keep power to equipment

By KRISTEN NELSON
Petroleum News

The Alaska Oil and Gas Conservation Commission has granted a request from Cook Inlet Natural Gas Storage Alaska, CINGSA, to rescind a rule in the company's storage injection order requiring gas detection equipment at the IFP fish plant.

CINGSA operates the Cannery Loop unit Sterling C gas storage pool, AOGCC said in a June 14 order. In 1964 Unocal plugged and abandoned an exploratory well, Kenai Unit 13-8, KU 13-8. The well was plugged and abandoned in accordance with regulations at the time and left with a 4-foot standpipe and placard, the commission said, but CINGSA's investigations found that the abandoned well marker has since been cut off and plugged and the well casing stub is buried below grade.

> *"There has been no physical evidence provided to AOGCC supporting any claim that KU 13-8 lacks mechanical integrity and there is no evidence of gas leakage from the well."*

During an October 2010 hearing IFP objected to CINGSA's gas storage injection project, and had questions, including the mechanical integrity of KU 13-8 because of its proximity to the IFP fish plant at Cannery Loop.

Rule 3 of Storage Injection Order 9A was a response to those objections.

The rule required CINGSA to "install, operate and maintain a gas detection and alarm system in all buildings located within 50 feet of the surface location of well KU 13-8, unless prohibited from doing so by either the owner or the lessee of the land upon which KU 13-08 is located," the commission said.

CINGSA installed and has maintained gas detection equipment at IFP's Cannery Loop fish plant since 2012, with the gas detection equipment continuously monitored remotely at the CINGSA Gas Storage Station.

No gas detected

The commission said CINGSA reports that during the years the gas detection system has operated, it has never alarmed due to detection of natural gas, but alarms have occurred and when investigated it was determined they were the result of IFP shutting off power to the building housing the gas detection equipment.

"CINGSA's 'Inlet Fish Abnormal Operations Reports' dating 2012 to 2022 provide details of responding to system

see **RULE CHANGE** page 3

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Petroleum News | *Alaska's source for oil and gas news*

● FINANCE & ECONOMY

bp sells 50% Sunrise oil sands interest

By KRISTEN NELSON

Petroleum News

bp said June 13 that it has agreed to sell its 50% interest in the Sunrise oil sands in Alberta to Calgary-based Cenovus Energy and as part of the deal is acquiring Cenovus' interest in the Bay du Nord project in Eastern Canada, adding to its sizeable acreage position offshore Newfoundland and Labrador.

Total consideration includes C$600 million cash, a contingent payment with a maximum aggregate value of C$600 million expiring after two years and Cenovus' 35% interest in the undeveloped Bay du Nord project offshore Newfoundland and Labrador.

"This is an important step in our plans to create a more focused, resilient and competitive business in Canada," said Starlee Sykes, bp senior vice president, Gulf of Mexico and Canada. "Bay du Nord will add sizeable acreage and a discovered resource to our existing portfolio offshore Newfoundland and Labrador. Along with bp's active Canadian marketing and trading business, this will position bp Canada for strong future growth."

bp said it will no longer have interests in oil sands production in Canada but will shift its focus to future potential offshore growth. It currently has an interest in six exploration licenses in the offshore Eastern Newfoundland Region and the non-operated stake in the Bay du Nord project will expand its offshore Eastern Canada position.

The Bay du Nord project consists of several oil discoveries in the Flemish Pass basin, bp said, in water depths of some 1,200 meters, with recoverable reserves estimated at some 300 million barrels of oil.

The bp Canada Energy Group holds offshore exploration licenses in the Orphan basin where it is planning an initial exploration well in 2023.

The transaction, with an effective date of May 1, is expected to close in 2022, subject to regulatory approvals.

Cenovus said full ownership of Sunrise enhances the company's core strength in the oil sands. It has operated Sunrise since the beginning of 2021, following the Husky Energy transaction, and is in the early stages of applying its oil sands operating model at this asset.

The company said on its website that it has been operating in the oil sands for more than two decades using steam-assisted gravity drainage, SAGD, and launched the oil sands' first commercial SAGD project in 2021.

Cenovus has three producing oil sands projects in Alberta — Christina Lake, Foster Creek and Sunrise — along with thermal and heavy oil operations at Lloydminster in Saskatchewan. ●

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RULE CHANGE

faults and results of detector calibrations," the commission said.

CINGSA attempted to contact IFP in late 2020 to resolve issues regarding gas detection equipment operation, but the company did not respond. CINGSA then notified IFP that it intended to seek relief from the gas detection requirement and offered an alternative method to ensure there is no gas release from KU 13-8. AOGCC said E&E Foods, parent company for IFP, was contacted in early 2022 with a draft copy of the request for relief to be filed with AOGCC.

The commission said neither company responded.

Commission's conclusion

The commission said the gas detection equipment requires electrical power to function and records indicate power has been frequently shut off or disconnected from the equipment, rendering the equipment non-functional and generating false alarms requiring CINGSA personnel to obtain access to the IFP buildings to investigate and reset the equipment.

"The shutting off of power to the buildings containing the required gas detection equipment at IFP's fish plant is effectively prohibiting CINGSA from operating its gas detection equipment. That action is inconsistent with concerns about the mechanical integrity of KU 13-8 and the potential for gas releases," the commission said.

AOGCC noted that CINGSA has made numerous efforts to resolve the issues around operation of the gas detection equipment. "IFP has declined to respond," and both IFP and E&E, the parent company, received notice of CINGSA's request that the commission rescind Rule 3, AOGCC said, and neither provided input about the application or requested a hearing.

"There has been no physical evidence provided to AOGCC supporting any claim that KU 13-8 lacks mechanical integrity and there is no evidence of gas leakage from the well."

The commission rescinded the rule requiring the gas detection equipment. ●

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EXPLORATION & PRODUCTION

US drilling rig count gains 6 to 733

The Baker Hughes' U.S. rotary drilling rig count was 733 on June 10, up by six from the previous week and up by 272 from 461 a year ago.

When the count dropped to 244 in mid-August 2020 it was the lowest the domestic rotary rig count has been since the Houston based oilfield services company began issuing weekly U.S. numbers in 1944.

Prior to 2020, the low was 404 rigs in May 2016. The count peaked at 4,530 in 1981.

The count was in the low 790s at the beginning of 2020, where it remained through mid-March, when it began to fall, dropping below what had been the historic low in early May with a count of 374 and continuing to drop through the third week of August 2020 when it gained back 10 rigs.

The June 10 count includes 580 rigs targeting oil, up by six rigs from the previous week and up 215 from 365 a year ago, with 151 rigs targeting natural gas, unchanged from the previous week and up 55 from 96 a year ago, and two miscellaneous rigs, unchanged from the previous week and unchanged from a year ago.

Thirty-eight of the rigs reported June 3 were drilling directional wells, 668 were drilling horizontal wells and 27 were drilling vertical wells.

Alaska rig count unchanged

The rig count in New Mexico (103) was up by five rigs from the previous week.

Louisiana (62) and Utah (14) were each up by a single rig.

Texas (356) was down a single rig week over week.

Rig counts in all other states were unchanged week over week: Alaska (8), California (6), Colorado (16), North Dakota (35), Ohio (12), Oklahoma (59), Pennsylvania (25), West Virginia (14) and Wyoming (18).

Baker Hughes shows Alaska with eight rotary rigs active June 10, unchanged from the previous week and up by five from a year ago, when the state's rig count stood at three. Seven of the rigs in Alaska were onshore, one was offshore — also unchanged week over week.

The rig count in the Permian, the most active basin in the country, was up by three from the previous week at 345 and up by 109 from 236 a year ago.

—KRISTEN NELSON

Hilcorp's Seaview plan for 2022 approved

The Alaska Department of Natural Resources' Division of Oil and Gas has approved Hilcorp Alaska's 2022 plan of exploration for Seaview. The Seaview unit was approved in August 2020. It consists of hundreds of individual tracts and owners including the state. Hilcorp is the only working interest owner and the operator, the division said.

One gas well, Seaview 8, has been drilled and is producing, with production from the Clark participating area.

The field began production in June 2021. April production volumes from the Alaska Oil and Gas Conservation Commission, the most recent available, show cumulative production from the field of 155,793 thousand cubic feet, mcf, with production averaging 275 mcf per day in April.

Hilcorp submitted the 2022 POE in late April (see story in May 8 issue of Petroleum News).

The division said that during the 2021 DOE Hilcorp proposed and completed a pipeline to the Seaview 8 well and began production. The company also proposed and completed additional drilling, the Seaview 9 and an additional well, Whiskey Gulch 1, adjacent to the Seaview unit.

During the 2022 POE Hilcorp plans to continue evaluating results from the Seaview 9 and possibly complete additional perforations, the division said. The company will also exchange the compressor currently at the Seaview 1 pd for a smaller model.

The division approved the 2022 POE covering Aug. 1 through July 31, 2023.

—KRISTEN NELSON

● FINANCE & ECONOMY

Factors pushing gasoline prices higher

By DAVID KOENIG

Associated Press Business Writer

There is little evidence that gasoline prices, which hit a record $5 a gallon June 11, will drop anytime soon.

Rising prices at the pump are a key driver in the highest inflation that Americans have seen in 40 years.

Everyone seems to have a favorite villain for the high cost of filling up.

Some blame President Joe Biden. Others say it's because Russian President Vladimir Putin recklessly invaded Ukraine. It’s not hard to find people, including Democrats in Congress, who accuse the oil companies of price gouging.

As with many things in life, the answer is complicated.

What is happening?

Gasoline prices have been surging since April 2020, when the initial shock of the pandemic drove prices under $1.80 a gallon, according to government figures. They hit $3 in May 2021 and cruised past $4 this March.

On June 11, the nationwide average for a gallon ticked just above $5, a record, according to auto club AAA, which has tracked prices for years. The average price jumped 18 cents in the previous week and was $1.92 higher than this time last year.

State averages ranged from $6.43 a gallon in California to $4.52 in Mississippi.

Why is this happening?

Several factors are coming together to push gasoline prices higher.

Global oil prices have been rising — unevenly, but sharply overall — since December. The price of international crude has roughly doubled in that time, with the U.S. benchmark rising nearly as much, closing June 10 at more than $120 a barrel.

Russia's invasion of Ukraine and the resulting sanctions by the United States and its allies have contributed to the rise. Russia is a leading oil producer.

The United States is the world’s largest oil producer, but U.S. capacity to turn oil into gasoline is down 900,000 barrels of oil per day since the end of 2019, according to the Energy Department.

Tighter oil and gasoline supplies are hitting as energy consumption rises because of the economic recovery.

Finally, Americans typically drive more starting around Memorial Day, adding to the demand for gasoline.

What can be done to get more oil?

Analysts say there are no quick fixes; it’s a matter of supply and demand, and supply can’t be ramped up overnight.

If anything, the global oil supply will grow tighter as sanctions against Russia take hold. European Union leaders have vowed to ban most Russian oil by the end of this year.

The U.S. has already imposed a ban even as Biden acknowledged it would affect American consumers. He said the ban was necessary so that the U.S. does not subsidize Russia’s war in Ukraine. “Defending freedom is going to cost,” he declared.

The U.S. could ask Saudi Arabia, Venezuela or Iran to help pick up the slack for the expected drop in Russian oil production, but each of those options carries its own moral and political calculations.

Republicans have called on Biden to help increase domestic oil production — for example, by allowing drilling on more federal lands and offshore or reversing his decision to revoke a permit for a pipeline that could carry Canadian oil to Gulf Coast refineries.

However, many Democrats and environmentalists would howl if Biden took those steps, which they say would undercut efforts to limit climate change. Even if Biden ignored a big faction of his own party, it would be months or years before those measures could lead to more gasoline at U.S. service stations.

At the end of March, Biden announced another tapping of the nation’s Strategic Petroleum Reserve to bring down gasoline prices. The average price per gallon has jumped 77 cents since then, which analysts say is partly because of a refining squeeze.

Why is U.S. refining down?

Some refineries that produce gasoline, jet fuel, diesel and other petroleum products shut down during the first year of the pandemic, when demand collapsed. While a few are expected to boost capacity in the next year or so, others are reluctant to invest in new facilities because the transition to electric vehicles will reduce demand for gasoline over the long run.

The owner of one of the nation’s largest refineries, in Houston, announced in April that it will close the facility by the end of next year.

Who is hurting?

Higher energy prices hit lower-income families the hardest. Workers in retail and the fast-food industry can’t work from home — they must commute by car or public transportation.

The National Energy Assistance Directors Association estimates that the 20% of families with the lowest income could be spending 38% of their income on energy including gasoline this year, up from 27% in 2020.

When will it end?

It could be up to motorists themselves — by driving less, they would reduce demand and put downward pressure on prices.

“There has got to be some point where people start cutting back, I just don't know what the magic point is,” said Patrick De Haan, an analyst for the gas-shopping app GasBuddy. “Is it going to be $5? Is it going to be $6, or $7? That's the million-dollar question that nobody knows.”

How are drivers coping?

On June 11 at a BP station in Brooklyn, New York, computer worker Nick Schaffzin blamed Putin for the $5.45 per gallon he was shelling out and said he will make sacrifices to pay the price.

“You just cut back on some other things — vacations, discretionary stuff, stuff that’s nice to have but you don’t need,” he said. “Gas you need.”

At the same station, George Chen said he will have to raise the prices he charges his customers for film production to cover the gas he burns driving around New York City. He acknowledged that others aren’t so fortunate.

“It’s going to be painful for people who don’t get pay increases right away,” he said. “I can only imagine the families who can’t afford it.” ●

—Julie Walker in Brooklyn, New York, contributed to this report.

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● EXPLORATION & PRODUCTION

Great Bear pad expansion plans approved

An earlier approval allowed movement of ingress driveway for Alkaid 2, providing distance from an Alyeska test station and valve

By KRISTEN NELSON

Petroleum News

Great Bear Pantheon LLC has received approval from the Alaska Department of Natural Resources' Division of Oil and Gas to expand pads for the Alkaid 2 and 3 exploration wells, a change from May approvals in the Alkaid unit plan of operation.

The plan covers Alkaid 2 and Alkaid 3 in the exploration phase of the unit. Pads for the wells are some 4 miles apart, with each 1,000 feet west of the Dalton Highway.

Alkaid 2 ingress driveway

In May, Great Bear Pantheon received approval from the division to change the location of the Alkaid 2 ingress road. After receiving its original approval, Great Bear was informed by Alyeska Pipeline Service Co. that the Alkaid 2 ingress driveway was within the Alyeska mandated setback from a test station and fuel gas line valve.

Great Bear then planned a new location some 1,400 feet south of the initial location. "The relocated driveway is expected to require roughly 11,000 cubic yards less gravel to construct than the original planned road," the division said in a May 18 approval of the change.

Alkaid 2 is some 16 miles southwest of the Deadhorse airport.

Pad expansion approval

In a June 8 approval, an amendment to the plan of operations was approved allowing for expansion of the pads for Alkaid 2 and Alkaid 3.

The division said that in the previous approved lease plan of operations, the drill pads were proposed as 260 feet long and 500 feet wide. "Due to simultaneous operations during completion and flowback testing activities and to safety accommodate the equipment and the fire code setback requirements, Great Bear is proposing to expand the pads by 50 feet along the eastern edge of each pad, which will also reduce the length of the egress driveway," the division said.

The division said that because of the previously approved relocation of the ingress driveway for Alkaid 2, "as well as the shortening of the egress driveways, the net result of the two amendments is still a reduction in the footprint of the originally approved Unit Plan of Operations of approximately 26,000 square feet."

Alkaid 3 is some 20 miles southwest of the Deadhorse Airport.

Exploration phase

In approving the Alkaid 2 and Alkaid 3 exploration program in May, the division said that in addition to the two pads, Great Bear will also construct a staging pad using rig mats on the former Alcor 1 site, directly across the Dalton Highway from the Alkaid 2 ingress road, with the staging pad to be primarily used for tubular storage and conex with dry supplies.

Alkaid 2 construction was expected to begin in mid to late May, the division said in its May 13 approval, with drilling activities in July. Construction for Alkaid 3 will begin after Alkaid 2 is completed, and not before July 31. Great Bear will source water from Annie Pit, the Sagavanirktok River and a pair of lakes 1.5 miles south of Alkaid 2, with gravel to be sourced from an existing material site at Dalton Highway milepost 390.

The drill rig is scheduled to be moved to Alkaid 2 around the first of July, followed by rig up and spud, with drilling, casing and fracking of Alkaid 2 proposed to begin in mid-July and run through mid-October, with Alkaid 2 flow testing proposed from mid-October through the end of May 2023.

As previously reported in Petroleum News (see "Pantheon secures rig" in May 29 issue), Great Bear has a contract for Nabors Rig 105AC for the Alkaid 2 well.

Construction of the Alkaid 3 gravel driveways and drill pad is proposed for mid-July through mid-August, with the rig proposed to move to Alkaid in February 2023, and drilling and casing of that well occurring from mid-February through the end of March. Fracking and flow testing of Alkaid 3 is proposed for mid-May 2023 through Feb. 1, 2024.

Alkaid 2 objectives

Great Bear told the division in April that there are three objectives for the Alkaid 2 well:

•Appraising the shallower Shelf Margin Deltaic horizon, which company management believes contains 2.6 billion barrels of oil in place and 404 million barrels of recoverable oil.

•Beginning a long-term production test of the primary objective Alkaid horizon, which independent expert engineering firm Lee Keeling & Associates estimates to contain 76.5 million barrels of oil contingent resources (recoverable).

•Evaluating the extend of the oil column within the Alkaid horizon immediately below the total depth of Alkaid 1.

Pantheon Resources in a May presentation listed two objections at the Alkaid 2 well: appraising oil in place in the shelf margin deltaic and an Alkaid production test. ●

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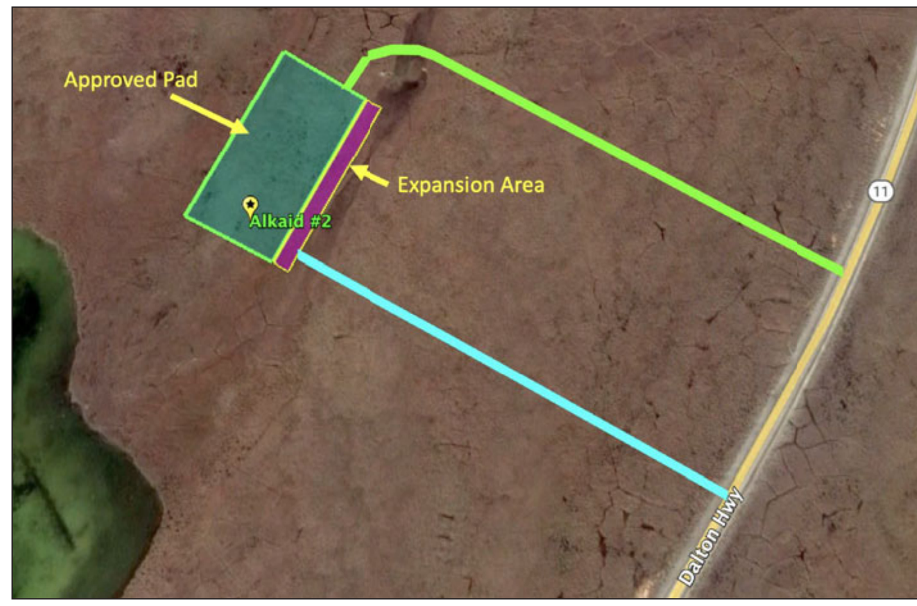
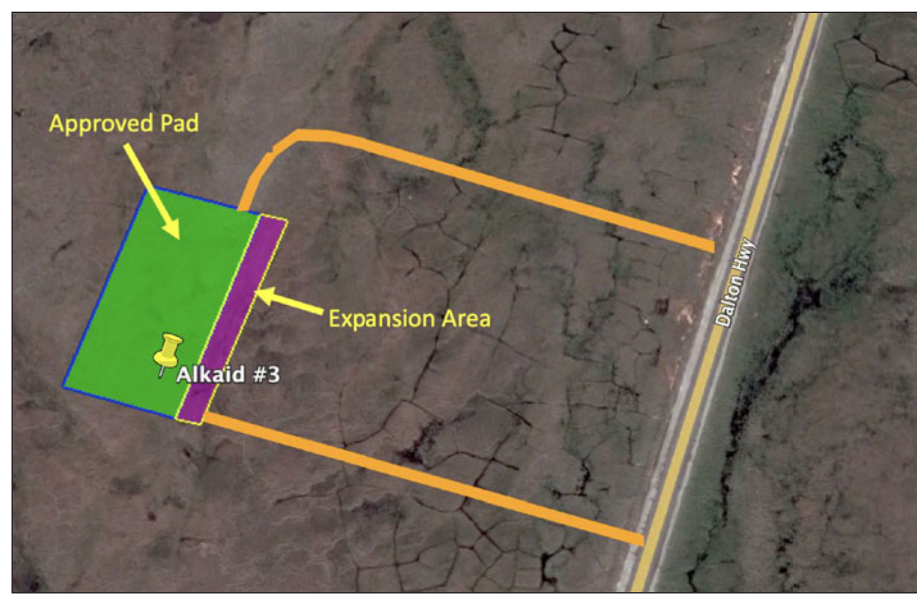


GREAT BEAR PANTHEON



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COLVILLE POD

field. ConocoPhillips announced a discovery there of between 100 million and 350 million barrels of oil equivalent.

The 2022 POD period would normally have ended in January 2023, but because the POD was amended, the period now runs through May 15, 2023.

The June 8 approval is only for a general plan of development. Specific field operations require separate approval under 11 AAC 83.346, Unit Plan of Operations. Under 11 AAC 83.343, the 2023 POD is due Feb. 15, 2023, 90 days before the 2022 POD expires.

Unit background

The Colville River unit was formed in 1998 and included 37 leases consisting of state, Arctic Slope Regional Corp., and joint state and ASRC lands.

The Colville River unit, which is west of the central North Slope, has been expanded nine times since 1998, and now covers more than 134,000 acres of state, ASRC, joint and federal lands.

The unit currently covers seven participating areas and eight distinct oil reservoirs.

Production from the Colville River unit averaged 45,990 barrels of oil per day during the 2020 calendar year and declined to an average 40,990 barrels of oil per day during the 2021 calendar year, representing an 11% year-on-year decline, the division said in its June 8 decision, which was signed by Derek Nottingham, director of the agency.

The company planned to drill up to seven wells within the Colville River unit during the 2021 POD period. However, three wells were drilled and two additional wells were in progress when the 2022 POD was submitted.

Planning for development of a new drill site called CD8 will continue during 2022. This new drill site will develop the Narwhal reservoir in the Fifth Expansion area of the Colville River unit.

When the 23rd POD was submitted on March 16, 2021, ConocoPhillips said as many as four Fiord West Kuparuk wells might be drilled during the 2021-Q1 2022 POD period, but only one of those wells were drilled.

Difficulty in drilling the first Fiord West Kuparuk well delayed drilling additional wells in the prospect, which is in the Alpine field of the Colville River unit.

But that first well exceeded ConocoPhillips' expectation, peaking on May 25 during testing at 12,000 barrels of oil per day and leveling out at 11,500 bpd.

In late May the company said the CD2-310 well will be "pre-produced for 5-6 months prior to being converted to permanent injection service." The well's total measured depth was 35,526 feet, making it the longest North American land based well.

A gas escape during the drilling of WD-03 on CD1 also delayed ConocoPhillips' drilling additional wells. (A full report detailing the gas escape was submitted to the Alaska Oil and Gas Conservation Commission on May 3 and can be found on the commission's website.) ●

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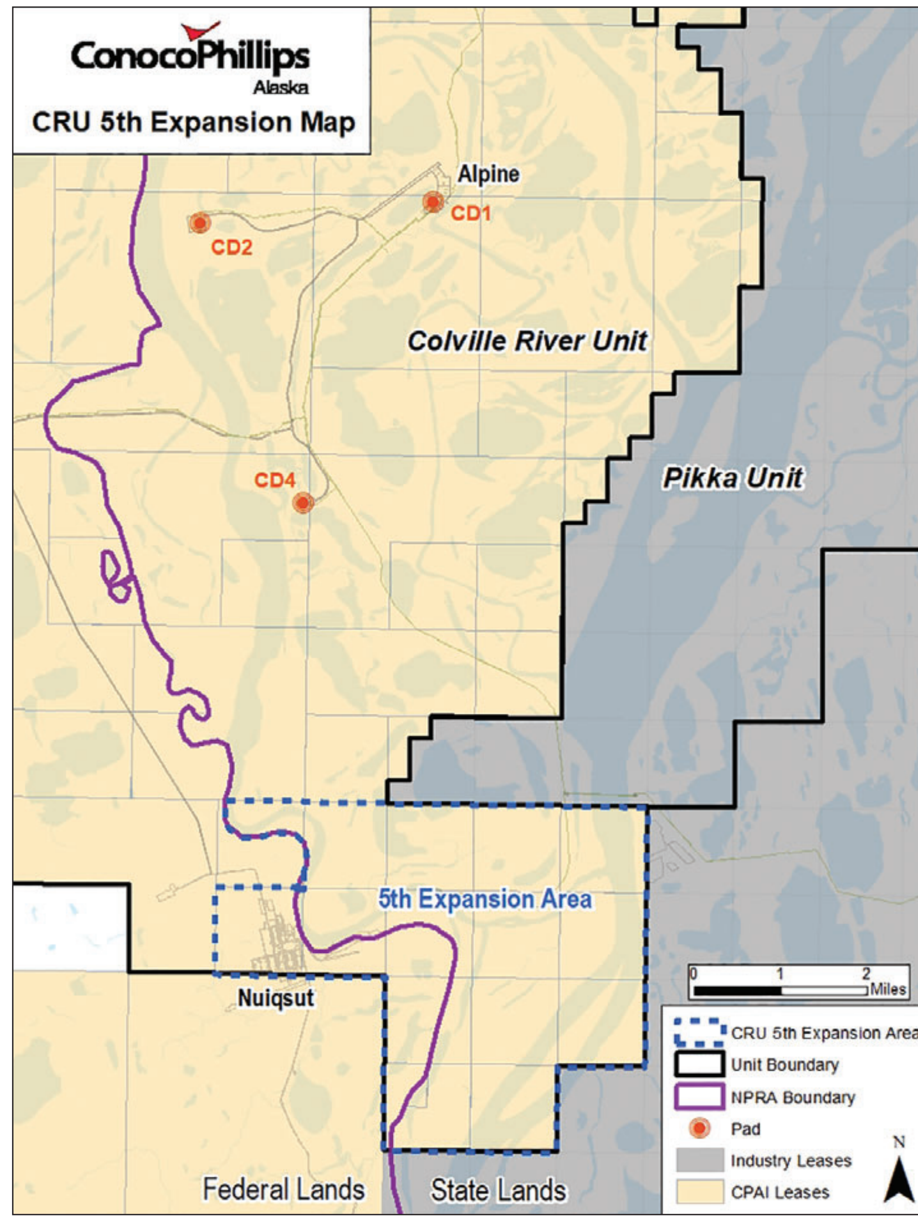

FINANCE & ECONOMY

India, China buying shunned Russian oil

By KRUTIKA PATHI
& ELAINE KURTENBACH
Associated Press

India and other Asian nations are becoming an increasingly vital source of oil revenues for Moscow despite strong pressure from the U.S. not to increase their purchases, as the European Union and other allies cut off energy imports from Russia in line with sanctions over its war on Ukraine.

Such sales are boosting Russian export revenues at a time when Washington and allies are trying to limit financial flows supporting Moscow's war effort.

A report by the Helsinki, Finland-based Centre for Research on Energy and Clean Air, an independent think tank released June 13 said Russia earned 93 billion euros ($97.4 billion) in revenue from fossil fuel exports in the first 100 days of the country's invasion of Ukraine, despite a fall in export volumes in May.

"Revenue from fossil fuel exports is the key enabler of Russia's military buildup and aggression, providing 40% of federal budget revenue," it said.

Markets for Russian oil

India, an oil-hungry country of 1.4 billion people, has guzzled nearly 60 million barrels of Russian oil in 2022 so far, compared with 12 million barrels in all of 2021, according to commodity data firm Kpler. Shipments to other Asian countries, like China, have also increased in recent months but to a lesser extent.

In an interview with The Associated Press, Sri Lanka's prime minister said he may be compelled to buy more oil from Russia as he hunts desperately for fuel to keep the country running amid a dire economic crisis.

Prime Minister Ranil Wickremesinghe said June 11 he would first look to other sources but would be open to buying more crude from Moscow. In late May, Sri Lanka bought a 90,000-metric-ton (99,000-ton) shipment of Russian crude to restart its only refinery.

Diversifying exports

Russia is moving to diversify its exports. Russian Ambassador Marat Pavlov met Philippine President-elect Ferdinand Marcos Jr. June 13 and offered Moscow's help to provide oil and gas. He did not specify the terms.

Marcos Jr., whose six-year term is set to begin June 30, did not say if he was considering the offer.

Since Russia's invasion of Ukraine in late February, global oil prices have soared, giving refiners in India and other countries an added incentive to tap oil Moscow is offering them at steep discounts of $30 to $35, compared with Brent crude and other international oil now trading at about $120 per barrel.

Their importance to Russia rose after the 27-nation European Union, the main market for fossil fuels that supply most of Moscow's foreign income, agreed to stop most oil purchases by the end of this year.

"It seems a distinct trend is becoming ingrained now," said Matt Smith, lead analyst at Kpler tracking Russian oil flows. As shipments of Urals oil to much of Europe are cut, crude is instead flowing to Asia, where India has become the top buyer, followed by China. Ship tracking reports show Turkey is another key destination.

Indian refining

"People are realizing that India is such a refining hub, taking it at such a cheap price, refining it and sending it out as clean products because they can make such strong margins on that," Smith said.

In May, some 30 Russian tankers loaded with crude made their way to Indian shores, unloading about 430,000 barrels per day. An average of just 60,000 barrels per day arrived in January-March, according to the Centre for Research on Energy and Clean Air.

Chinese state-owned and independent refiners also have stepped up purchases. In 2021, China was the largest single buyer of Russian oil, taking 1.6 million barrels per day on average, equally divided between pipeline and seaborne routes, according to the International Energy Agency.

While India's imports are still only about a quarter of that, the sharp increase since the war began is a potential source of friction between Washington and New Delhi.

The U.S. recognizes India's need for affordable energy, but "we're looking to allies and partners not to increase their purchases of Russian energy," Secretary of State Antony Blinken said after a meeting of U.S. and Indian foreign and defense ministers in April.

Possibility of cartel

Meanwhile, the U.S. and its European allies are engaged in "extremely active" discussions on coordinating measures, perhaps forming a cartel, to try to set a price cap on Russian oil, Treasury Secretary Janet Yellen told a Senate Finance Committee meeting June 14.

The aim would be to keep Russian oil flowing into the global market to prevent crude oil prices, already up 60% this year, from surging still higher, she said.

"Absolutely, the objective is to limit the revenue going to Russia," Yellen said, indicating the exact strategy had not yet been decided on.

While Europe could find alternative sources for its purchases of about 60% of Russia's crude exports, Russia also has options.

India's foreign minister, Subrahmanyam Jaishankar, has emphasized his country's intention to do what is in its best interests, bristling at criticism over its imports of Russian oil.

"If India funding Russian oil is funding the war, tell me, then buying Russian gas is not funding the war? Let's be a little even-handed," he said at a recent forum in Slovakia, referring to Europe's imports of Russian gas.

India's imports of crude from Russia rose from 100,000 barrels per day in February to 370,000 a day in April to 870,000 a day in May.

Oil displaced from Middle East

A growing share of those shipments displaced oil from Iraq and Saudi Arabia, most of it going to refineries in Sika and Jamnagar on India's western coast. Up until April, Russian oil accounted for less than 5% of the crude processed at the Jamnagar oil refinery run by Reliance Industries. In

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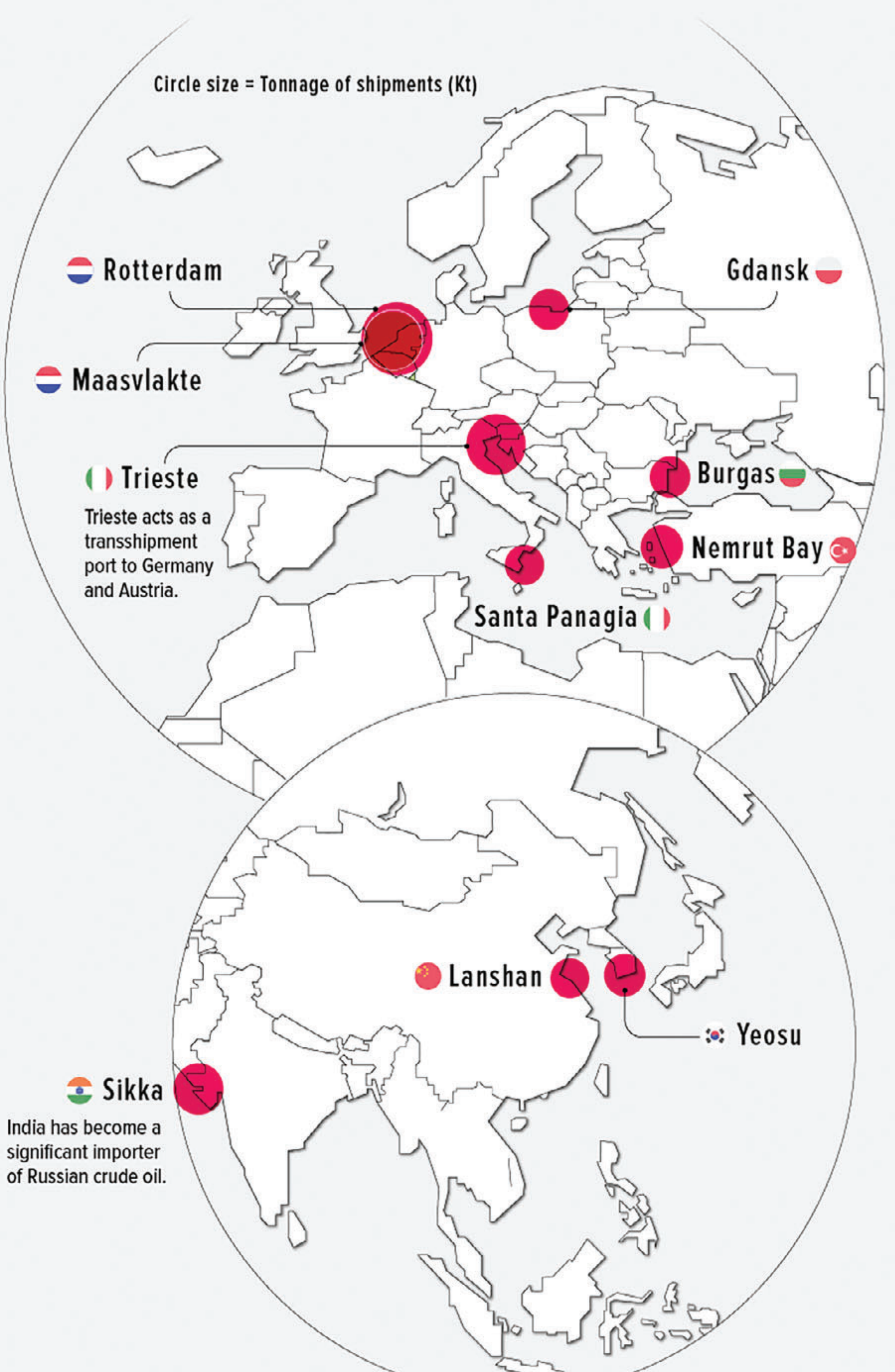
The Top Ports for RUSSIAN CRUDE OIL SHIPMENTS

Top 10 importing ports (during the first 100 days of the Ukraine Invasion):

Rank	Port	Country	Tonnage of shipments (Kt)	Number of shipments
1	Rotterdam	Netherlands	5,345	47
2	Trieste	Italy	3,713	30
3	Maasvlakte	Netherlands	3,645	32
4	Sikka	India	2,624	20
5	Nemrut Bay	Turkey	1,887	16
6	Yeosu	South Korea	1,793	17
7	Burgas	Bulgaria	1,713	15
8	Gdansk	Poland	1,680	15
9	Santa Panagia	Italy	1,611	14
10	Lanshan	China	1,578	14



VISUAL CAPITALIST

Source: Centre for Research on Energy and Clean Air

visualcapitalist.com

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OIL PRICES

various economic factors the Fed cannot control, including the war in Ukraine, COVID-19 lockdowns lifting in China, commodity prices and supply chain disruptions.

Powel took special aim at gasoline prices.

"All over the world, you are seeing these effects, and we're seeing them here, gas prices at, you know, all-time highs and things like that," Powell said. "That's not something we can do something about."

ANS fell $1.93 June 14 to close at $124.14, while WTI slid $2.00 to close at $118.93, and Brent slid $1.10 to close at $121.17.

On June 13, ANS rose 8 cents to close at $126.07, while WTI and Brent each rose 26 cents to close at $120.93 and $122.27, respectively.

The week ending June 10 saw oil posting its seventh weekly gain, despite red ink on Thursday and Friday.

ANS fell 94 cents June 10 to close at $125.99, as WTI fell 84 cents to close at $120.67, and Brent fell $1.06 to close at $122.01.

ANS lost 84 cents to close at $126.93 June 9, while WTI fell 60 cents to close at $121.51, and Brent fell 51 cents to close at $123.07.

Falling prices on June 15 were prodded by a drawdown in U.S. commercial crude inventories, which increased by 2.0 million barrels over the week ended June 10, the Energy Information Administration said in figures published the same day. Inventories were 14% below the five-year average for the time of year.

Gasoline inventories fell over the period by 0.7 million barrels, 23% below the five-year average for the time of year.

Along with other oil producers, Russia is currently enjoying a surge in oil export income due to higher prices, but export volumes may plummet later in 2022.

The U.S. has outlawed imports of Russian oil and the European Union has agreed to phase in prohibitions this year on seaborne imports of Russian crude.

Adding to the obstacles the Russians will face finding buyers, the EU is coordinating with Group of Seven members to ban insurance of Russian oil cargoes.

Fitch Ratings believes that redirecting of all Russian oil and products volumes may not be possible due to infrastructural limitations, buyers' self-restrictions and logistical complications, such as the ban on insuring Russian oil cargoes.

Fitch estimates that 2 million barrels per day to 3 million bpd — a quarter of the country's oil production — may disappear from the global market by end-2022.

The EU ban will have a significant impact on global oil trade flows, some 30% of EU's imports will need replacement from other regions, including the Middle East Africa and the United States, Fitch said, adding that Saudi Arabia and the UAE have sustained production spare capacity of about 2 million bpd and 1 million bpd, respectively.

"Russia should be able to redirect some of the displaced volumes into other countries, including India and China, which so far have been increasing Russian oil purchases," Fitch said. "The use of spare capacity and Russian oil redirection should lessen the pressure on global oil supply in the medium term."

Russia is profiting from oil prices now.

"With higher crude oil and product prices globally, Russian oil export revenues are estimated to have increased by $1.7 billion in May to about $20 billion," the International Energy Agency said June 15 in its monthly oil report.

Russian crude exports held steady in May at 5.4 million bpd, but refined product shipments slipped 155,000 bpd compared to April to 2.4 million bpd, the IEA said.

A June 15 S&P Global report said industry observers think the EU insurance ban may not stem the flow of Russian oil at sea as providers in other regions will likely fill the breach.

"There is talk that there could be some Asian entities, perhaps even Chinese insurance providers, to step in, in the absence of EU providers," a maritime analyst told S&P Global.

The EU insurance ban is a bad idea, the Peterson Institute for International Economics said in a June 9 release.

"It is important to allow Russia to sell its oil — albeit at deeply discounted prices — so that global supply and the world market price remain largely unchanged," the PIIE said, "In that way, Russia suffers, while Europe and the United States do not."

In major episodes of oil supply cuts in the past 50 years, a 1% cut in global supply led to increases in world prices of 7% to 10%, and Russian exports account for 8% of world petroleum production, the PIIE said, adding, "If they were reduced to, say, 5%, this ratio would suggest an increase in the world oil price of 21% to 30%, a substantial and costly increase." ●

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● FINANCE & ECONOMY

Fire at Texas LNG terminal jolts markets

By CATHY BUSSEWITZ

Associated Press Energy Writer

An explosion at a liquefied natural gas terminal in Texas has left nearby residents rattled and is taking a substantial amount of the fuel off the market at a time when global demand is soaring.

Freeport LNG will be offline for at least three weeks, the company said May 9, following a fire in its export facility. The company said no one was injured, and the cause is under investigation.

Melanie Oldham, who lives in Freeport, said she heard three loud bangs the morning of May 8 and went outside to find out what was going on.

"It makes me feel like we are daily living with high risk of explosion, release of gas, public health issues for not only us in Freeport, but for all the people who go to those big beaches on Quintana Island," said Oldham, a physical therapist and co-founder of Citizens for Clean Air and Clean Water of Freeport and Brazoria County. "We don't know what could have been released into the air or even the water."

Excess emissions

A fire in the LNG terminal's liquefaction delivery system led to excess emissions of carbon monoxide, nitrous oxides, particulate matter, sulfur dioxide and volatile organic compounds, according to an incident report filed with the Texas Commission on Environmental Quality May 9.

Longtime Freeport resident Gwendolyn Jones, 63, said she was about a mile or two from the facility when she saw a white cloud hovering over it after the fire. She was concerned that Freeport residents weren't evacuated or warned about the incident by local authorities and thought nearby residents should be given respirators to help reduce the risk of inhaling dangerous fumes.

"We should have meetings where we could discuss issues to make sure that this would never ever happen again, because I'm afraid of what's going to happen next," Jones said. "Nothing but the grace of God has kept us alive in these situations."

About 15%

Normally, Freeport LNG exports about 2 billion cubic feet of liquefied natural gas per day, about 15% of the nation's LNG exports.

The shutdown comes at a time when global demand for LNG is high because many nations are trying to wean themselves off Russian gas, which is sent into Europe primarily though pipelines. U.S. exports have been soaring.

Most of Freeport LNG's exports were going to Europe, according to Rystad Energy. Europe may be able to offset the lost volume with increases from other facilities, said Emily McClain, vice president at Rystad. Europe gets about 45% of its LNG from the U.S., and the rest comes from Russia, Qatar and other sources, she said.

Freeport LNG sells gas to a mix of buyers including major oil and gas companies, Asian utilities and commodities traders, and "those buyers will no longer be getting deliveries from Freeport until the facility is fixed," said Ross Wyeno, lead analyst at S&P Global Commodity Insights. Wyeno said it's unlikely that other LNG terminals around the world can increase production to pick up the slack because "everybody's pretty much maxed out if they can be."

As a result, LNG prices are increasing, and consumers in Europe are likely to feel the impact, Wyeno said. But in the U.S., natural gas prices are falling because a major buyer of gas — the LNG terminal — stopped buying, he added.

Lower domestic natural gas prices aren't soothing the nerves of people who live near the terminal though. Freeport residents such as Oldham and Jones have long been concerned about the potential for incidents at the terminal.

"Our fears came true, unfortunately," Oldham said. ●

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RUSSIAN OIL

May, it accounted for more than a quarter, according to Centre for Research on Energy and Clean Air.

India's exports of oil products like diesel have risen to 685,000 barrels per day from 580,000 barrels per day before the invasion of Ukraine. Much of its diesel exports are sold in Asia, but about 20% was shipped via the Suez Canal, headed for the Mediterranean or Atlantic, essentially Europe or the U.S., said Lauri Myllyvirta, a lead analyst at CREA.

It's impossible to quantify the exact amount of Russian crude in refined products being shipped out of India, he said. Still, "India is providing an outlet for Russian crude oil to get through the market," ●

Petroleum news

Oil Patch Bits

Republic Services completes acquisition of US Ecology

Republic Services Inc. recently announced that it completed its acquisition of all outstanding shares of US Ecology Inc. on May 2, 2022. The previously announced purchase price of $48 per share in cash represents a total value of $2.2 billion including debt net of cash acquired. US Ecology stock will be delisted from the NASDAQ Global Select Market.

This transaction expands Republic's environmental solutions footprint across the U.S. and Canada and provides vertically integrated capabilities for its environmental solutions business. It also provides a platform for accelerated growth, including cross-selling revenue opportunity and additional tuck-in acquisitions.

"We are excited to welcome US Ecology employees to the Republic team," said Jon Vander Ark, president and chief executive officer. "With US Ecology's deep expertise in specialty waste handling, this acquisition strengthens our position as a leading environmental services company offering one of the most complete sets of products and services to our customers."

Republic funded the transaction using a combination of its credit facilities and a new three-year term loan. The company expects to maintain a strong balance sheet and solid investment-grade credit profile, and plans net debt-to-EBITDA, as defined in its credit agreement, to return to below 3x within 18 months.

For more information visit republicservices.com/usecology.

Companies involved in Alaska's oil and gas industry

All of the companies listed above advertise on a regular basis with Petroleum News

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BADAMI PLAN

daily oil production over the past year of 1,055 barrels per day, an 18% increase from 890 bpd the previous year.

Savant filed the 19th plan of development for Badami April 18. In its long-range proposed development, the company said it intends to drill, but that is dependent on economic conditions, including stable oil prices and the company's ability to raise capital at reasonable terms.

18th POD work accomplished

In its approval of the 19th POD, the division listed Savant's proposed work for the 18th POD, the 2021 plan:

•Gas lift optimization on Badami B1-07.

•Production logging on Badami B1-36.

•"Continue compliance work and further engineering work related to infrastructure, tie-in and additional processing requirements for the Badami East Pad."

•"Continue well and facility maintenance, optimization, and explore options to enhance production as appropriate."

The division said Savant completed all the operations and also added perforations to B1-36. "Gas lift optimization improved production from the B1-07 well," the division said.

Savant also said that it has identified seven new targets for drilling in the Badami and Killian sands, three of which can be drilled from the Badami main pad with the remaining four to be drilled from the proposed east pad.

Plans under previous POD

In discussing the previous 18th POD in its current proposal, in addition to the work which the division noted as completed under that plan, the company listed a number of activities qualified by "as economic conditions warrant."

•Subject to economic conditions, "further the planning development activities for the new Badami and Killian sand prospects."

•Subject to economic conditions, do an additional well workover on a Class 1 injection well, B1-01, "to expand injection zones that will aid in grind and inject operations associated with the planned new drills."

•Subject to economic conditions, continue planning "for developing prospects related to the Killian sands outside of the participating area."

•Subject to economic conditions, drill the Killian 28 prospect from the main pad, "to further the concept of the Killian reservoir originally proved by the B1-07 Starfish well." The company said remaining Killian wells would be drilled from a proposed east pad "due to ease of reach and additional space" and to allow for "a multiple well drill scenario. The two Badami sand prospects can be both reached from the main pad and the east pad," the company said.

Savant also provided information on the proposed the Badami East Pad. It "will serve as a satellite site to gather production from the proposed new wells on the east pad to the main pad that houses the processing facilities." There will be gathering manifolds, artificial gas lift operations, black start heater and well test equipment on the new pad, which will be connected to the main pad via an 8-inch line for three-phase flow and a 2-inch line to supply gas for lift operations. An integrated electrical and fiberoptic line will connect both pads, "and an option to add multiphase pumping operations."

Savant also said that it has identified seven new targets for drilling in the Badami and Killian sands, three of which can be drilled from the Badami main pad with the remaining four to be drilled from the proposed east pad.

No wells were drilled in 2021, Savant said, listing unfavorable economic conditions in 2020, lost revenue as Badami was shut-in for six months in 2020 and expenses related to turnaround and restart operations.

The 2022 POD

In its 19th POD Savant said it "intends to further the planning development activities for the new Badami and Killian sand prospects. Due to the significant capital cost of the endeavor, it is highly dependent upon an extended period of stable oil prices and ability to raise capital at reasonable terms."

Depending on economic factors, the company intends to drill two Badami sand wells from the main pad classified as proved undeveloped prospects.

For areas not included in the participating area, the company "will continue to refine and market the prospects related to the Killian sands outside of the participating area." It intends to drill into the Killian 28 reservoir from the main pad during the ice road season, to "prove the extensive Killian play outside of the PA at Badami and aid securing capital for overall development."

The company also plans geologic evaluation of newly secured 1,280 acres toward the south of the unit.

The company plans "logging work to evaluate potential commingling of reservoirs in B1-38," currently producing from the Killian reservoir, with Alaska Oil and Gas Conservation Commission approval required for commingling.

It plans fluid movement logs on Class 1 injection well B1-01 to test efficacy of existing injection zones and mechanical integrity testing of the existing wellbore.

Planned facility work includes relocation of a membrane based newly installed wastewater treatment plan to a more suitable location, upgrading communication systems between the Badami control room and remote terminal units along the Badami Pipeline and converting fuel source from propane to natural gas for thermoelectric generators at remote terminal units along the pipeline.

Division approval

In its approval of the 19th POD, the division listed proposed work for the 2022 POD as:

•Well logging in B1-38.

•Fluid movement logs in B1-01.

•Continuation of "well and facility maintenance, optimization, and explore options to enhance production as appropriate."

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FEIGE RESIGNS

Family

In a June 13 memorandum to the governor, subject "Retirement," Feige said: "As you know well, these are demanding jobs. My family has supported me over the past three and a half years as I have served the people of Alaska, delivering your vision and policy goals for a stronger, more vibrant Alaska, free of Federal interference, and able to develop its resources under the strictest environmental standards in the world while providing good family wage jobs. I am proud of the work we have been able to accomplish.

"Due to recent developments, the time has come for me to return the support my family has so generously shown."

Feige has had her own company, The Castle Mountain Group, where she was president and principal from 2016-18.

She was director of the Division of Oil and Gas from 2015-16, leaving to return to The Castle Mountain Group.

She was at The Castle Mountain Group from 2014-15, and earlier from 2005-10, leaving to become general manager, Alaska, of Linc Energy Operations from 2010-14, and manager, governmental affairs and public relations for Pioneer Natural Resources/Evergreen Resources (Alaska) from 2003-05.

Before The Castle Mountain Group, Feige was consultant geophysicist/owner of Aurora Geophysical Services.

She has a Bachelor of Science in geophysical engineer from the College of Engineering, Montana School of Mines.

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REFINING SQUEEZE

scheduled to shut down at the end of next year, and it could cease operations earlier if there's a major breakdown, the company says. That shutdown will cut U.S. refining capacity by an additional 268,000 barrels a day. High crack spreads aren't changing the company's plans.

Buybacks, debt cutting

For major refiner Valero Energy Corp., big profits are being used to cut debt. The company just bought up $300 million in 4.0% bonds due in 2040. That's a pretty attractive rate for long-term borrowing, but Valero doesn't figure it needs that money for new investments.

That's only a small slice, as Valero says it has reduced the company's debt load by roughly $2.3 billion through transactions in the last two quarters of 2021 and the first quarter of this year.

On top of that, the company said it returned $545 million to stockholders in the first quarter through dividends and stock buybacks, as profit totaled $905 million.

All this is part of a trend in the oil industry, and to some extent in the entire constellation of companies in the U.S. They are recycling profits back to shareholders instead of investing it in new plants and equipment.

"We increased our annual buyback range to $5 to $10 billion," said Chevron Corp. CEO Mike Wirth at Bernstein's Strategic Decisions Conference on June 1. "We are buying back at the top of that range right now at a $10 billion annual rate." That's on top of a dividend yielding around 3% that Wirth says is a top priority for his company.

While Wirth says the company is growing its production through capital investments, the investment total has dropped sharply.

"If you go back a decade, we were spending $40 billion a year," Wirth says. "This year, our capital budget is $15 billion …" That's for an industry giant focused mainly on the upstream, of course.

Bucking government, or not?

Still, Wirth had some things to say about refining, and its future:

"There hasn't been a refinery built in this country since the 1970s. I don't believe there will be a new petroleum refinery ever built in this country again.

"Capacity is added by debottlenecking existing units, by investing in existing refineries. What we've seen over the last two years are shutdowns," he said. "We've seen refineries closed. We've seen units come down. We've seen refineries being repurposed to become biorefineries.

"We live in a world where the stated policy of the U.S. government is to reduce demand for the products that refiners produce — whether you look at the CAFE standards for fuel efficiency in vehicles, the Renewable Fuel Standard or the California Low Carbon Fuel Standard to subsidize biofuels, EV tax subsidies, or internal combustion engine phase out policies.

"We're a California based company. We deal with a lot of this stuff in California. At every level of the system, the policy of our government is to reduce demand. It's very hard in a business where investments have a pay-out period of a decade or more and the stated policy of the government for a long time has been to reduce demand for your products.

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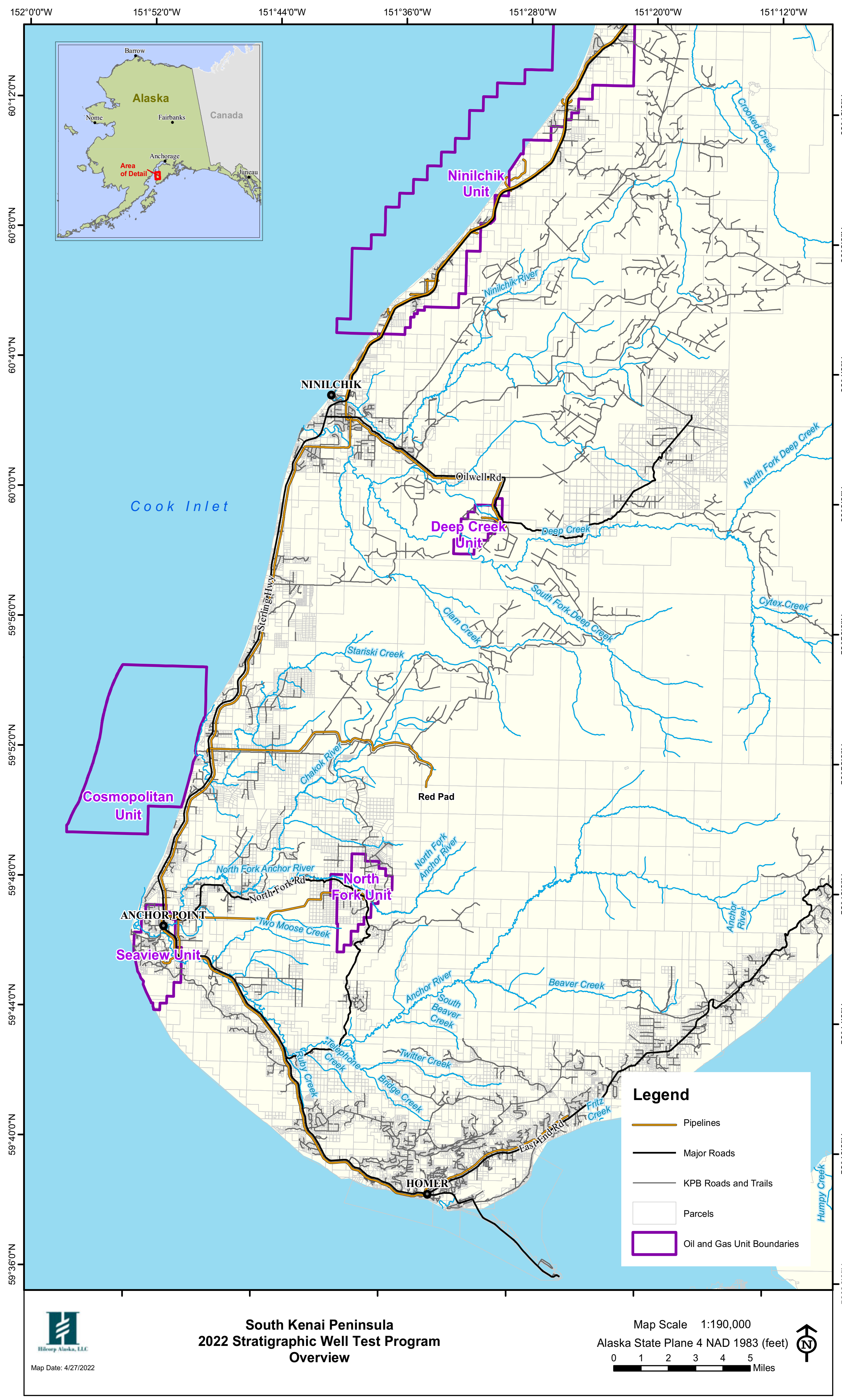

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TEST WELLS

Peninsula coast — more onshore than offshore. It includes the southern tip of the Ninilchik unit in the north and most of the Seaview unit on the southern end.

The wells permitted with the Alaska Oil and Gas Conservation Commission include 10 stratigraphic tests and one service well — Cottonfield Nos. 1-5 and 9-14. AOGCC approved the permits June 7. All are shown as exploratory. None of these wells are on state oil and gas leases.

The 11 wells with AOGCC drilling permits are all in section 3 south, range 14 west or range 15 west of the Seward Meridian.

Four of the wells are on Alaska Department of Transportation right of way; two are on Kenai Peninsula Borough right of way; one on Kenai Peninsula Borough land; and four on private land.

The locations are generally east of the Cosmopolitan unit.

"Hilcorp and its contractors have successfully completed 28 identical stratigraphic test wells in the southern Kenai Peninsula area since 2017," the company said in its June 1 application to the Alaska Division of Oil and Gas.

—KRISTEN NELSON

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REFINING SQUEEZE

"How do you go to your board, how do you go to your shareholders and say, we're going to spend billions of dollars on new capacity in a market where the policy is taking you in the other direction?"

On top of that is persuading potential lenders to buck the tide of animosity toward energy companies and to pledge the money for new equipment when the loan term could run 30 years or more and some think the industry won't even be around then. That perception is likely wrong, but it's out there.

Then there's Europe

The issue compounds when you look at the refining industry in Europe, which also has shrunk in recent years as those countries have concentrated huge investments in renewables, even though they remain seriously dependent on Russian oil and gas.

As a result, significant cargoes of U.S. refined products already are being sent across the Atlantic.

Europe has mandated a reduction of Russian oil imports of 90% by the end of the year, just allowing imports by a few select countries.

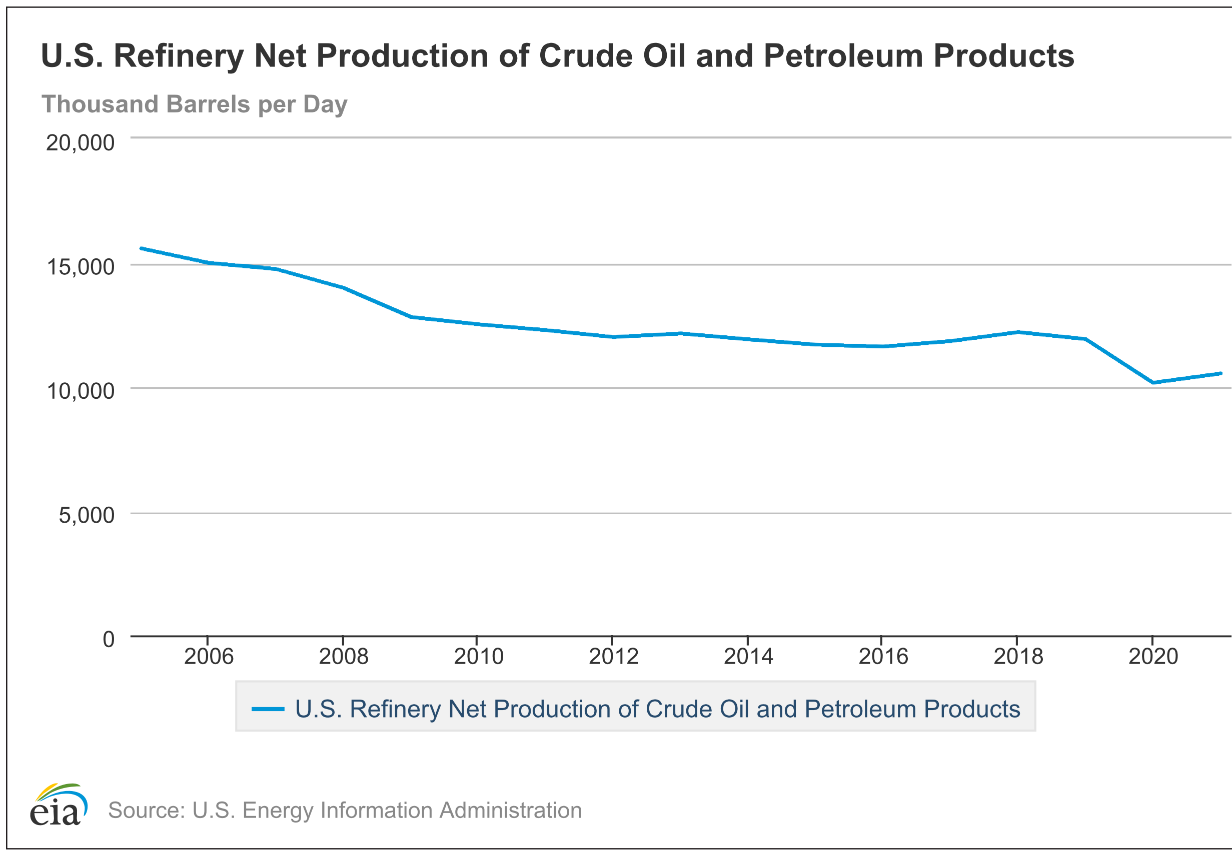
That means huge disruptions for refining operations that have been using Russian crude for decades. Refineries are built for a specific type of crude oil and can't run efficiently on other grades without expensive alterations.

Plus there's the issue of getting the crude to the refinery.

Two neighboring refineries in Germany illustrate the dilemma, as Reuters reported recently.

The PCK refinery in Schwedt is Germany's fourth largest. Majority owner is Russia's state-controlled Rosneft Oil Co., adding a further wrinkle. Down the road is the Leuna refinery owned by TotalEnergies. Both are supplied with Russian crude via the Druzhba pipeline.

Plans call for those refineries to be switched over to crude mostly shipped to the Gdansk port in Poland and then moved to the refineries by pipeline, according to Reuters. Except the pipeline doesn't have the capacity to carry enough crude for the two operations, so there's talk of getting a fleet of tanker trucks to move the oil from port to refinery that way. Not cheap.



The actual oil coming into the port could be a mix of cargoes from Norway, the Middle East, West Africa and even the United States. So the refineries will be looking at different grades from different sources with different characteristics and different impurities that need to be removed in processing.

That's a lot more complicated than using the consistent chemistry of the Russian Urals crude.

More than likely, unless the Russian oil ban is lifted soon, these refineries will need expensive alterations.

Other European refineries are in similar situations, with facilities that are often old and have existing maintenance problems, as any complex web of high temperature, high pressure vessels and piping is sure to do. The PCK refinery in Germany was built in 1960 and has used Russian oil the entire time since.

New car ban

Meanwhile, Europe is no more supportive of fossil fuels than California, whose policies Chevron's Wirth outlined. Maybe less.

On June 8, the European Parliament voted to ban sales of new diesel and gasoline-powered cars and vans in 2035. The United Kingdom has already mandated that new vehicles in that year must have zero tailpipe emissions and could stop sales of those vehicles as early as 2030.

So that is the environment in which new investments to retool or expand refineries in Europe and elsewhere will be judged.

So, barring a huge decline in demand through a major recession, the refining industry is likely to essentially run in place for the foreseeable future.●

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