

RusPetro Says Tight Oil Tax Relief to Provide Big Boost

By [The Moscow Times](#)

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RusPetro, the only Russian company focused on hard-to-extract "tight oil," said it would get significant tax relief for almost all of its current crude production under a law signed earlier this week.

Development of tight oil could help Russia, the world's largest crude producer, meet its aim to maintain production capacity at its current level of more than 10 million barrels per day over the next decade.

RusPetro, with proved and probable reserves of more than 1.8 billion barrels of oil equivalent in the heart of West Siberia, said it would get 80 percent relief on mineral extraction tax for about 97 percent of its current oil production.

"If an 80 percent reduction in MET [mineral extraction tax] ... had been applicable during [the first quarter], the EBITDA per barrel of production would have been \$17.15, an almost 400

percent increase," the company said Friday.

RusPetro reported first-quarter earnings before interest, taxes, depreciation and amortization at \$3.61 per barrel.

Russia's basic mineral extraction tax, at 470 rubles (\$14.40) per ton, is adjusted according to several variables, including global oil prices, the level of depletion of a deposit, its reserves and the level of extraction difficulty.

Late Tuesday, President Vladimir Putin signed into law amendments that set the coefficient of difficulty of oil extraction at between 0 and 0.8, with zero applying to Siberia's Bazhenov formation and several other unconventional plays.

The tax relief will come into force from Sept. 1.

But Putin also left in an amendment that requires separate metering for tight oil at each well, a costly new infrastructure that may prevent companies from using the tax relief.

RusPetro has obtained an interest in exploring the Bazhenov formation, which covers 2.3 million square kilometers in West Siberia. Russian producers have already reported 500 million tons, or 3.5 billion barrels, of recoverable tight oil reserves in the formation.

Alexander Nazarov, an analyst with Gazprombank, welcomed the tax relief but said it was worth waiting a couple of months to see how companies would deal with the new tax regime.

"It will be quite difficult [to install separate measurements on wells]. There could be a 'regular' layer, for example, and then after drilling tight oil could be found. How are companies supposed to count oil at such a well?" he said.

The relief should boost investment in hydraulic fracturing, a process that involves injecting water and chemicals at high pressure into rock to unlock shale oil, one type of tight oil.

Russia has 75 billion barrels in recoverable reserves of shale oil, the U.S. Energy Information Administration has estimated, larger than the 58 billion estimated for the U.S.

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