HMRC - OT05328 - Crude Oils And Products - Category 1 Oil Forties Blend Sulphur De-Escalator

Background

In June 2007 the Price Reporting Agency Platts introduced a quality differential specific to Forties blend crude oil. Following a period of uncertainty, this change was reflected in the Shell standard forward contract (SUKO 90) in July 2007.

The new clause recognised that if the proportion of sulphur in the crude oil exceeded 0.6% then the buyer would be entitled to a discount of US 4 cents per barrel for every full increment of 0.01% (zero point zero one percent) over 0.6%. For example, if the sulphur assay showed that the proportion of sulphur was 0.629% then the buyer would get a discount of 8 cents per barrel. If the level rose to 0.63% then the discount would also rise to 12 cent per barrel.

The underlying cause was the introduction of Buzzard field into the Forties system. Buzzard crude oil had significantly more sulphur than other Forties blend fields and contributed a very large volume to Forties production. In the summer; when other fields shutdown for maintenance; the proportion of Buzzard would rise significantly with a commensurate increase in sulphur levels over the previous maximum of 0.6%.

For deliveries with NDDs on or after 1 July 2007, as long as a company provided evidence of the sulphur levels in a disposal (the normal quality assay on loading would provide this) then, for any NAL disposal, the statutory value of that cargo would be reduced by the amount of the de-escalator.

Practice

Since July 2007, Platts have changed the amount of the de-escalator, and LB Oil & Gas has accepted these de-escalation elements in NAL values as follows;

Platts’ Forties Sulphur de-escalator

For example, with a 40 cent de-escalator:

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