

# The rise of the Independents: A new force in oil production

By David Renwick

Independent producers are expected to be the main source of growth in crude output in the future, unless the exploration activity currently underway leads to the discovery of a major new oilfield

Leaving aside the State-owned Petrotrin and two multinationals, Repsol and BHP Billiton, the rest of the 67,780 b/d of crude oil produced in Trinidad and Tobago in 2013 was by a multitude of small companies, collectively known as the Independents.

What's more, these entities are expected to be the main source of growth in crude output in the future, unless some of the exploration activity currently underway both on and offshore leads to the discovery of a major new oilfield.

The Independents certainly see themselves as fulfilling that role and as, at least, part of the answer to Energy and Energy Affairs Minister Kevin Ramnarine's fervent desire to halt and reverse what has for the last three years been an unrelenting decline in the amount of crude lifted, almost entirely due to falling production on the part of both Repsol and BHP Billiton.

Petrotrin has held relatively steady over the period, both in its onshore and nearshore (Gulf of Paria) operations.

Only the Independents – eight lease operators (LOs), two farm out (FO) operators, five incremental production service contractors (IPSCs) and six companies operating outside of the LO, FO or IPSC systems. The first three are arrangements with Petrotrin to, respectively, reactivate abandoned wells, produce small tracts of acreage and expand operations in fields that have been neglected over the years. The companies that fall into none of those categories work blocks under joint venture (JV) deals with Petrotrin and, in some cases, on their own, such as Touchstone Exploration and Moraven Holdings, the only Independent operating exclusively offshore (on the east coast). Mind you, there is considerable overlap, with some companies being involved in more than one type of arrangement with the state company, which is by far the largest acreage holder in the country.

The LOs and FOs started out in the late 1980s as all locally-owned companies, most of whom had been contractors working for Petrotrin and its multinational predecessors who grabbed the chance to become oil producers on their own account when the opportunity was offered to them.

Over the years, however, most of them have been snapped up by foreign companies, who themselves qualify to be considered as Independents, despite being quoted on stock exchanges abroad.

Nationalists are not happy about this, which they regard as undermining the growth of an indigenous class of upstream oil entrepreneurs but one recent overseas entrant, Leni Gas and Oil (LGO), which is listed on the Alternative Investment Market (AIM) in London, considers it, perhaps unsurprisingly, as a positive development.

Its Chief Executive Officer, geologist Neil Ritson, argues that "the overseas companies can get production up faster. They can access finance. They know how to reactivate old fields and manage wells. They are very competent in everything that needs to be done to raise production which, after all, is Minister Ramnarine's goal."

LGO, which operates the Goudron IPSC, is a 50 per cent, non-operating partner with another overseas Independent, Touchstone Exploration, in the Icacos block. It has recently extended its reach by taking a 100 per cent share in the deeper horizons (below 7,000 feet) in celebrated local oilman Dr Krishna Persad's private mineral rights licence in Trinidad's south west peninsula, which includes the producing Bonasse field.

LGO had earlier added 1,750 acres of prospective acreage adjacent to the Icacos block, which it operates independently of Touchstone.

This quick acquisition of additional properties is typical of how the newcomers to the upstream in Trinidad and Tobago tend to operate and has distinguished them from their counterparts locally.



**Neil Ritson**  
CEO, Leni Gas & Oil

Dr Persad is something of an exception, however. Not only has his KPA Group held on to its 46-acre Barrackpore farm out (FO) block, it has expansionist plans in store for it. Current production is about 50 b/d which may seem modest but is actually, according to Dr Persad, “the best performance in terms of barrels per acre of all Petrotrin’s partnerships.”

Plans for 2013 included the drilling of two new 2,000 feet shallow test wells in Barrackpore and initiating work in the shallow horizons in the private mineral rights acreage mentioned earlier, 72.5 per cent of which is now in Persad’s hands following his purchase of Captiva Resources controlling interest via one of his companies called Beach Oilfield Ltd (BOLT).

Persad says he wants to rehabilitate 4-5 existing wells and perhaps drill 3-5 new ones, “in order to get the very low production at Bonasse up to at least 75-100 b/d, with my goal being 150/300 b/d, if I can get it.”

Though the Independents are, individually, usually modest oil producers (collectively their contribution is crucial, however), their very independence gives them the freedom to innovate in a way bigger companies often can’t.

Dr Persad is an outstanding example of this in that he is pioneering an effort to retrieve some of the “stranded oil” left behind in his own block because it can no longer be brought to the surface naturally.

His retrieval agent will be carbon dioxide (CO<sub>2</sub>) and flue gas, first by injecting into existing wells and then extending that field-wide with injector and offtake wells. Using CO<sub>2</sub> for enhanced oil recovery (EOR) is not being attempted by any other company in Trinidad and Tobago at the moment but Persad believes it will quickly catch on once an economic way can be found to capture the emissions from the petrochemical plants at the Point Lisas industrial estate and at the Atlantic LNG site in Point Fortin.

Energy and Energy Affairs Minister Kevin Ramnarine has instructed the

State-owned National Gas Company (NGC) to investigate the feasibility of building a pipeline from Point Lisas to the southern basin to supply operators with CO<sub>2</sub> on a commercial basis.

Greg Boyles, another small operator (from the US) whose New Horizon Exploration (NHE) runs the Parrylands East block in a JV with Petrotrin, is also a supporter of CO<sub>2</sub>-EOR and at one time toyed with the idea on his own account.

“Most people in the energy sector would consider it if it made economic sense,” he says. “The lynchpin here is the economics associated with the effort. There is a cost of bringing CO<sub>2</sub> into play and measuring the results of the after-effects of injecting it into your formation.”

Persad seems to have found a way to deal with the economics but most Independents seem to think they have enough potential reserves in their blocks that can be accessed by development drilling in already established plays.

Touchstone Exploration is a sterling example of that. For the fiscal year-end Touchstone achieved an annual average production of 1,727b/d.

It undertook an 8-well development effort in 2013, yielding an annual finding, development and acquisition cost of approximately US\$11.63 per barrel.

Touchstone plans a 21-well effort during 2014, using two rigs and hopes to end the year at between 2,300 and 2,400 b/d.

The Canadian exploration company, whose President and CEO is the amiable economist-turned-oilman, Paul Baay, is one of the best examples of the overseas incursion into the locally-owned upstream sector in Trinidad and Tobago.

Most recently, in 2014, Touchstone merged with another Canadian Company, Petrobank Energy and Resources Ltd, to create a well-capitalised, diverse, entity that is committed to its assets in Trinidad. In 2011 Touchstone unhesitatingly swooped on the Primera Energy ►

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**Dr Krishna Persad**  
Chairman, KPA Group

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► Group when Primera's beleaguered parent, the Trinidad and Tobago conglomerate CL Financial, was divesting most of its subsidiaries. A year earlier, in 2010, Touchstone had bought Territorial Services (the WD-8 LO Block) and the acreages owned by Damus Oil (LO blocks CO1 and CO2 and FO blocks South Palo Seco and New Dome).

The Primera Purchase added no fewer than 16 blocks and fields to its inventory, including one in the Gulf of Paria called East Brighton. That amounts to about 32,000 net acres within Trinidad, giving Touchstone the kind of critical mass on which it can build a substantial production platform going forward.

Mr Baay shares the same view of the value of the Independents to the Trinidad and Tobago petroleum sector as does LGO's Neil Ritson. "We small guys are going to make a difference where oil production is concerned," he says, firmly. "I feel the Independents could among us add about 20,000 b/d which would take the country back up to roughly 100,000 b/d."

Touchstone's own contribution to this "could be upwards of 5,000 b/d in due course," Baay asserts. "by 2015, which will be only our sixth year of business in Trinidad and Tobago, we expect to be lifting between 2,800 to 3,000 b/d." All this is not so fanciful when it is considered that, as the President/CEO observes "That we have taken production in Trinidad from 143 b/d to 1,727 b/d."

While acknowledging that Touchstone has managed to add acreage at a considerable clip in Trinidad and Tobago, Baay insists at "it's not the amount of acreage that you have so much as the number of prospective drilling locations. We now have 130 identified new well drilling locations. That is approximately 5 years of drilling ahead."

Despite that, Touchstone has not stopped looking for additional acreage and has been awarded the Ortoire

block in February of this year. This block will provide Touchstone with approximately 44,700 additional acres.

One of the principal attractions for an Independent in Trinidad is the guaranteed market it has for its crude oil. By their very nature, Independents have no links with refineries, unlike the majors, which do and in most other countries would have to seek out domestic refiners and do deals with them or even have to export their oil.

Not so in Trinidad and Tobago, where the Petrotrin refinery is only too happy to purchase any crude it is offered, and at good prices too.

"We are absolutely satisfied with the price we get from Petrotrin," Baay confirms. "It varies month to month, depending on the world price but it's not too far from that."

Walter Cukavac, country manager for another leading Independent, Range Resources, echoes Baay's words. "All our sales are tied into Petrotrin," he assures. "They are happy to buy all the oil we produce. All we have to do is put it into a pipeline."

Range has three oil-producing onshore blocks – Morne Diablo and South Quarry, both FOs and Beach Marcelle, an IPSC – from which it lifts about 600 b/d. It expects to drill 175 wells over the next 3 years across its blocks. Its recent agreement with Petrotrin to reduce the over-riding royalty (ORR) it pays on its blocks has improved its netback per barrel to US\$40 before tax at 1,000 b/d and around US\$50 a barrel before tax at 2,000 b/d.

Like the KPA Group, Range is active in EOR but using water, not CO<sub>2</sub>, in the Morne Diablo, with plans to carry out waterflood on Beach Marcelle in the future.

It has also been on the lookout for expansion into new properties and in July 2013 announced it had farmed-into Niko Resources/Petrotrin's Guayaguayare Shallow and Deep Horizon block, which is operated under a production sharing contract (PSC)



**Paul Baay**  
CEO, Touchstone

and extends from onshore to the transition zone offshore.

Range will take over 50 per cent of Niko's interests in the shallow and deep portions of the block, which are 65 per cent and 80 per cent, respectively.

The attraction is not hard to discern. As Range said in announcing the acquisition: "There are four prospective fields within the onshore part of the block, each considered to have significant potential for oil, while the offshore is believed to

have significant potential for large gas discoveries."

One Independent that has still managed to keep majority ownership in local hands, despite its IPO on AIM earlier this year, is Trinity Exploration and Production. It is the only one of its ilk that works acreage off the west coast, the east coast and on land. The ambition of its CEO, Monty Pemberton, is "to become the first internationally recognised Trinidad and Tobago oil and gas company."

More on Trinity elsewhere in this publication ■

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*Range Resources has three oil-producing onshore blocks in Trinidad: Morne Diablo, South Quarry and Beach Marcelle*