Leni Gas & Oil

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LGO's Goudron field in Trinidad is a textbook case of a company-making oil project that has moved to production within two years and promises to be the springboard for sound growth

Speaking in June Leni Gas & Oil (LGO) chairman David Lenigas said: "Our Trinidad operations will do 2,000 barrels per day (bpd). Not might, - will." The company is one of the more salient success stories in the Australian entrepreneur and former Lonrho chairman's portfolio. And the market is backing him: LGO's shares on London's AIM market have risen from under a penny in November to over 4-pence at the time of writing. "I think the industry was waiting to see if our initial results at least met if not exceeded our predictions, which they did, and have moved the value of the company up to reflect that," says Neil Ritson, the company's CEO.

By initial results, he means the performance of LGO's first well on its onshore Goudron Field in Trinidad, which started producing in May and better than any resource estimates showed that this asset has company-making potential. To reel back, LGO cut its teeth on a field redevelopment in Spain, and though it learnt a great deal one of its conclusions was that Spain is a too high cost operating area for a junior company. It needed to find somewhere it could deploy those skills in a more benign operating environment.

Following up on and early partnership in a small producing field in Trinidad LGO made a strategic decision to expand its footprint there. "Trinidad has a lot of production history behind it - three billion barrels of oil have been produced onshore there over the last 100 years," explains Ritson. "As a result it has great opportunities in field reactivation – precisely what the company was set up to do." In October 2011 LGO acquired a Trinidad and Tobago company, Goudron E&P Limited and a year later had secured the exclusive Incremental Production Service Contract (IPSC) to develop the Goudron Field in south eastern onshore Trinidad. A canny move, since the field had been bypassed by the majors, perhaps because of its remote location though it did have the distinct advantage of being close to the Petrotrin owned pipeline which crosses the island to the Pointe-à-Pierre refinery on its west coast.

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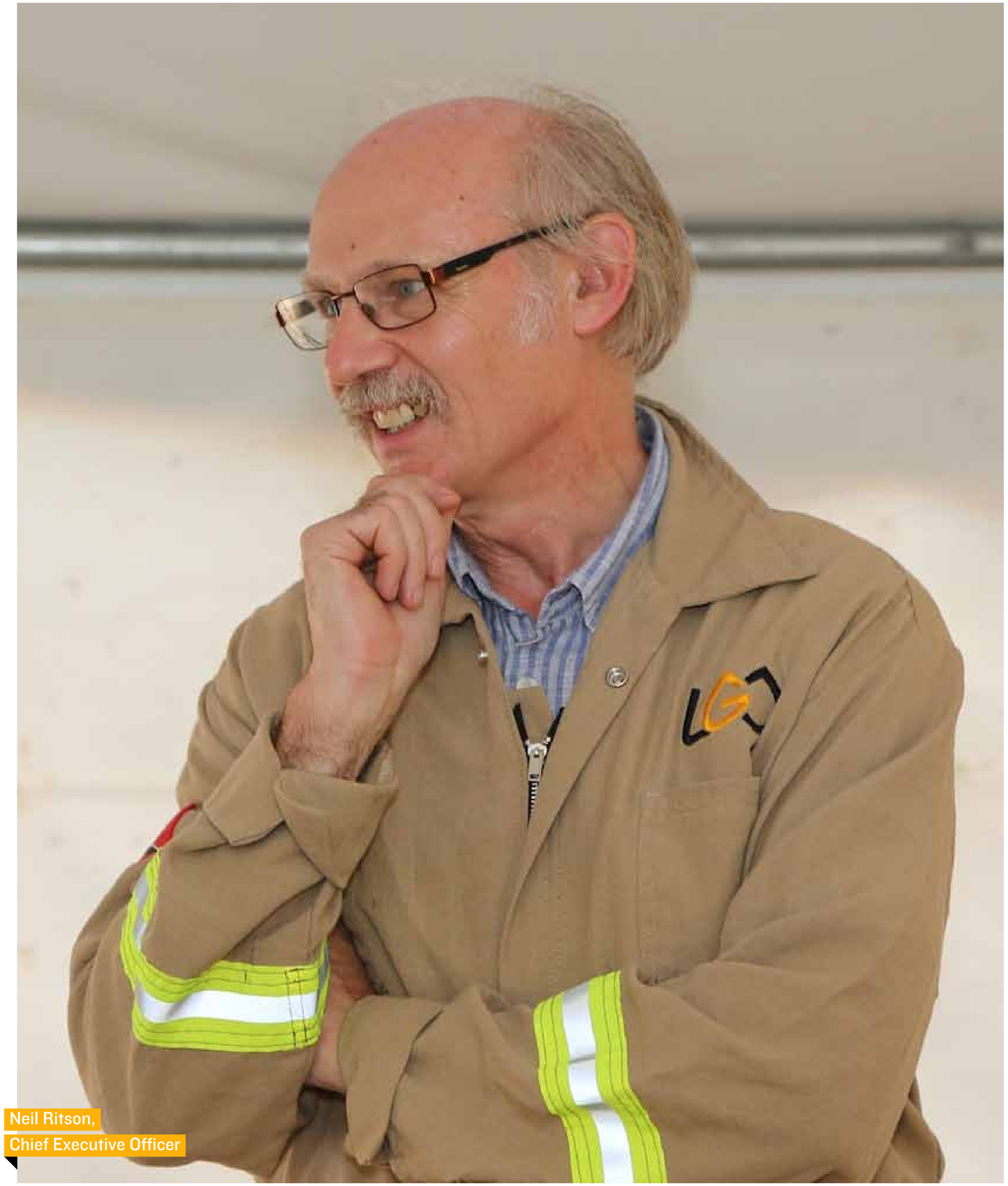

Neil Ritson,
Chief Executive Officer

PHOTO CREDIT: BRETT ROSS PHOTOGRAPHY

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"We moved on to the site in October 2012 with a three phase plan," he continues. "Phase One was to reactivate as many of the old wells as we could." Historically some 150 wells had been drilled on the field and thus far LGO has identified and investigated around 90 that it believes have some future production potential. Around 70 of the old 'nodding donkey' or beam pump wells were reactivated in this phase, giving the company early revenue from the 350 bpd they could deliver. This was old technology, he hastens to point out, but it facilitated quick progression to Phase 2, a programme of infrastructure reconstruction. "We had to remake a lot

Rig on the Goudron field

of roads, and upgrade communications because when we first arrived there was no signal to even use a mobile phone!” Old roads and bridges were made operational, a communications tower erected and a new camp constructed, preparing the way for the new well drilling programme.

This was the meat of the strategy. Not much could be expected from the old wells. They were drilled maybe in the 1950s using heavy mud that blocked the transfer of oil from the rock formation and created a ‘skin’ or damaged area round the well bore, and completed using guns that could only place one hole per foot, with those holes penetrating a very short distance, perhaps as little as an inch beyond the steel casing. Though LGO will optimising these wells by adding new perforations the new well now flowing has demonstrated the massive advantage to be gained by state of the art drilling and completion technology that does much less damage to the resource.”

The first well, no 664, was budgeted on delivering 65 bpd, a significant difference from the average five bpd achieved from the old wells. Optimistically, Neil Ritson thought that it might reach 100 bpd. In the event it came in at 240 bpd, and that at a constrained rate, choked to 7/32” – no wonder the investors liked that. That was at the end of May, and the well is still flowing though the size of the choke was still further reduced to 6/32” in order to not produce any water or sand from the reservoir. Taking out the oil at maximum speed allows these pollutants to come up with the oil. “The first well we put in is flowing under natural pressure of between

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Pumps at the Goudron field

500 and 600 psi, at a stable rate of 200 bpd through a 6/32” hole; and by not drawing it down too quickly we are not causing any damage.” The enhanced performance of this well is down to the use of modern blowout preventers, allowing drilling with much lighter mud and then perforating with much more powerful completion guns that can shoot six holes per foot with penetration up to 30”.

So far just the one well has been put into production, but four more have been drilled already by LGO’s drilling contractor Well Services and drilling will shortly be under way on four more. Wells 665 to 668 are deviated wells from a single pad, an area about the size of a football pitch – ‘deviated’ meaning that they access a point in the formation that can be 1,000 feet from the surface location. The pad is expensive to prepare so the more wells that each can support the better, and as LGO plans to drill a total of at least 30 wells placing up to six per pad will save a lot of money and – just as important – mean a much lower impact on the virgin forest that covers the property. Once the well is in production, the pad footprint is reduced to the size of a couple of tennis courts: the remainder regenerates very quickly.

The second well has delivered very similar results to the first, says Ritson. “We can’t complete those wells until we move the rig so we will drill them, then complete them, and get the production from four wells all at one go. Completion is not a long process and can be done in 24 to 36 hours. Then we immediately move the rig to another pad and probably sink another four wells off that. We are talking to rig contractors about bringing

Did you know?

3 billion barrels
Oil Trinidad has produced in the last 100 years

30 million barrels
Goudron’s current 3P reserves

Operations staff at Goudron

"When we took the field it was doing 40 bpd it is now doing 450 and I can be pretty confident that by the end of the year it will be doing 1,000"

a second rig on to the field soon to accelerate this drilling programme – the sooner we drill them the sooner we are in production!"

If each of these 30 wells produces like the first the daily output would be 6,000 barrels, making David Lenigas's predictions look positively conservative. And this does not take Phase 3 into consideration, which will see secondary or enhanced recovery that can be done once the initial flow declines. The adjacent Beach Field operated by Texaco, where water flooding has taken place, has yielded 30 million barrels to Goudron's five million, and the two fields are of similar size, Neil Ritson points out. "When we took the field it was doing 40 bpd it is now doing 450 and I can be pretty confident that by the end of the year it will be doing 1,000. By the end of 2017 it could be doing 5,000, so great is its potential."

The remarkable speed with which the wells are being developed could only be achieved with the support of Petrotrin and the Ministry of Energy & Energy Affairs, both of which have been unstintingly supportive, as we noted in last year's Special Report (www.bus-ex.com/article/petrotrin) Petrotrin is very keen to facilitate investment in well development by independent companies. And Petrotrin's President Khalid Hassanali joined the Minister Kevin Ramnarine when the latter paid one of his rare visits to an oil project when he came last October to mark the first anniversary of LGO's involvement. On that occasion the Minister expressed his pleasure in seeing the reactivation of these wells, confirming that projects like Goudron are in line with the Ministry's policy to increase oil production and thus derive additional revenue for the economy of Trinidad and Tobago.

"There has been huge support from Petrotrin in getting approvals through quickly and also adjusting the terms of the contract to further incentivise us; they reduced the royalty rates by 50 percent in return for us committing to a bigger work

Neil Ritson
Chief Executive Officer

Mr. Ritson holds a Bachelors degree in Geophysics. He has worked in the energy sector for over 35 years, initially with BP plc, where he held the roles of International Chief Geophysicist, Head of Geoscience Research and Business Unit Leader for both Norway and Alaska Exploration.
Subsequently Mr. Ritson managed the international operations of Burlington Resources Inc. and more recently he was CEO at Regal Petroleum plc before founding the Vanguard Energy Group where he was Chairman and CEO. Mr Ritson is an Executive Director of Solo Oil plc and Managing Director of NR Global Consulting Limited. He is also Non Executive Director of Enovation Resources Limited, a Bermudan registered private company active in the UK North Sea. Mr Ritson is a member of the Audit committee.

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programme, though not a bigger programme we had already planned to do. They have extended our contract, which is particularly helpful when there is a question of enhanced oil recovery schemes which may run for 20 years. Petrotrin is a very supportive partner.

Equally in alignment with Petrotrin's policy (again, extensively covered in our Special Report) is LGO's commitment to hire exclusively local staff, wherever in the world it operates, and to sustainable oil development. This is more than just complying with regulation – remember too, says Ritson that good business and good environmental practice go hand in hand. "We manage water carefully, cleaning it completely, not least because of the price of oil. No oil escapes back into the environment and the water returned is treated to be consistent with the creeks." Wildlife, vegetation and air quality are similarly carefully managed. The small areas that do have to be cleared regenerate very quickly.

LGO financed its purchase of Goudron, and initial working capital, by raising £5 million on the public markets. More recently it has been using bridging finance, available on the revenue from 350 bpd being produced. "We have had to balance that with small amounts of equity to avoid the risk with short term finance that you end up borrowing to repay borrowings," says Ritson. "The next step for us is long term finance." With proven probable and possible (3P) reserves of 30 million barrels and established revenue this project is clearly debt financeable so the company is negotiating longer term lending to carry the project to the next stage. "The programme will become self-funding probably early next year but there are other things to do and certainly a water flood could be an attractive proposition, though an expensive investment to make."

Goudron Tank Battery

Looking further ahead, LGO wants to build on its experience and knowledge of Trinidad & Tobago and the deep relationships it has built to take up further opportunities here. With its track record so far the processes followed at Goudron can be replicated at least as fast elsewhere. "Our market cap last year was less than £20 million, now it is over £100 million. That means we have better access to institutional investors, lending banks and the like." For now, though, the Goudron field will – not might – yield enough oil to make LGO a substantial gross profit by the end of this year. BE

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