



Al-Howqal: Regardless delay of martial permits, Western Desert is full of potentials for investors

Since the initiation of its activities in Egypt, Kuwait Energy Company (KEC) has been strengthening its steps in the industry. However, its ambitious plans to further expand are hindered by some obstacles that slow down its investment wheel. Mohammed Al-Howqal, Kuwait Energy Chief Operation Officer, sheds light on these obstacles and reveals the company's 2010 plan in Egypt

By Ahmed Morsy

Operating in Egypt since 2006, how have the operations of KEC expanded in Egypt?

We started our operations in 2006 by acquiring 30% interest shares in Burg El Arab field from Krete Company, then increased it to 50%. Afterwards, Krete abandoned from Burg El Arab and they remained with Ghareb Company, an Egyptian service company, which was also their partner in that field.

In the meantime, Kuwait Energy signed a Sale & Purchase Agreement with Ghareb to acquire an additional 25% Working Interest in the Burg El Arab field. The purchase transaction also included the transfer of operatorship of the field to Kuwait Energy. After the completion of this transaction, KEC will have a total 75% Working Interest in the field.

KEC also completed the acquisition of an additional 12% working interest in Abu Sennan block and currently has a 72% working interest in the field. However, the company's path in this area is still blocked; being subject to some military approvals, which they did not get so far despite the facilities and the positive response of the Egyptian Petroleum officials. The company planned to drill approximately 10 wells after obtaining the Military approvals.

Do you think that such a delay limits the flow of investments into the country?

Being one of the investors, we need to guarantee our rights. Although we have got the approvals of the Egyptian Ministry of Petroleum and the People's Assembly in addition to the consent of the Egyptian cabinet, we are still waiting the martial authorization. Nevertheless, we are attuned to the issue of national security.

What do you think of the government's intention to cancel the subsidy policy by 2014?

I totally agree with this decision, but some conditions should be put into consideration. It should be done, but nonetheless, there should be an in-

crease in oil production, salaries, vacant posts and a development in the transportations which are all necessary aspects if you are planning to cancel the subsidy policy.

What about Area A that you acquired from Oil Search?

We have had a service contract with the General Petroleum Company (GPC), which was a brown field and it was the result of our deal with Oil Search. Consequently, we obtained all Oil Search's field in Egypt and Yemen. Area "A" is one of these onshore fields located in the Gulf of Suez. When we first got this field in 2008, its production volume was 2.900 BOEPD and now it has more than doubled and reached 7.000 BOEPD. It is a promising area and we exerted a lot of work in it side by side with the GPC. However, we need to enhance the conditions of the contract with GPC to be of value for us in order to invest more in it as we are approaching more difficult areas that need more high technology as well as more capital and also because of the existence of natural gas. Currently, we are negotiating with the Egyptian General Petroleum Corporation (EGPC) and GPC to handle it.

What are KEC other fields in Egypt?

We have also the East Ras Qattara, in which the operator is Enap Sipetrol, a state-owned Chile Company. They are doing a very good job and exceeded our expectations.

This field was also obtained from Oil Search and its oil production was 900 BOEPD, but now we reached 5.700 BOEPD. Yet, our main obstacles there are the crew transportation capacity and storage space. Thus we are negotiating with Apache to get more facilities in this area, since they hold and control a large board of facilities in the Western Desert.

Our goal is to boost our production from the East Ras Qattara to 8000 BOEPD, as this field is promising and capable of gifting more.

How promising is the Western Desert?

The Western Desert is greatly fruitful. However, it needs more development, facilities and also requires more simplified laws. It is not familiar in any country to wait for a military permit to move a rig but in Egypt.

I believe that the Jurassic layer is the future of the Western Desert. As a matter of fact, all companies are now focusing on this layer. We ordered a rig to be moved there targeting this deep formation layer. IPR is operating there and produces 5000 BOEPD, but there is a huge amount of gas waiting for investors.

What is the production volume of KEC in Egypt?

KEC share of production in Egypt counts for more than 7000 BOEPD. We have interest shares in five concessions; Area "A", East Ras Qattara, Mesaha, Burg El Arab and Abu Sennan. They are all oil fields except Area "A", which has began to bring out a large amount of gas. Hence, we are about to perform a development plan as our contract in this field is only for oil and we need to exploit this gas by making a new contract.

In the shadow of the economic crisis, was KEC able to achieve its 2009 plan?

We achieved our plans in 2009 despite the global financial calamity. During the crisis, we did not halt any of our projects and we brought more investors to invest in Kuwait Energy. In addition, we were able to get a loan of the International Finance Corporation (IFC) in last September to carry on our operations. Besides, we did not lay off any of KEC workers as many other companies did and are still doing.

We expected the crisis early and planned for it right. We only rationalized our cost but not at the expense of our workers.

Regarding the \$50 million IFC's loan, what are the strategies of exploiting the loan in Egypt?

The loan was for our projects in Egypt and

Yemen only and there was no ratio to divide it between the two countries, but it depended on the work, potential, development targets. It aimed mainly at developing the proven reserves.

Of course, there will be other loans in the future as long as we plan to widen our investments. We are keen on operating in more new concessions and aware if there are companies need to pull out so as to replace them like the case of Oil Search acquisition.

Despite being one of the very few local privately-owned oil and gas E&P companies in the MENA region, some news stated that the company is going public by next year, is that true?

No, it is not right. We have KUFPEC in Kuwait which is a state-owned company and it is also operating in Egypt. It might be revitalized and if so, we will acquire its share due to its successful projects and investments in the areas of Middle East, Africa, South East Asia, Far East and Australia. But we will not be public.

Kuwait Energy's capital is 130 million Kuwaiti dinars, which is equal to 1.300 billion shares, and we are targeting to attract more investors within the company to increase the capital and shares of the company. The current capital is worth almost 1 billion dinars.

What about the company's commitment of setting new standards for environmental and social management in the region?

The environmental and social management is very important to us. It is important for the company to employ young generations to give them the experience, as they will be the future generation to manage and operate the operations wheel. Their loyalty will be for the company, because you gave them the opportunity from the beginning.

We are a Middle Eastern company, but our strategy is to stick to the international standards. And that reflects how we will be in London Stock Market in the first quarter of 2010.



Qarun Petroleum Company (QPC) is back on track and is ramping up activity as oil prices recover from the economic crisis, said the company's General Manager/Managing Director John L. Hendrix, highlighting that Qarun is targeting the production above 2009 levels during 2010

By Christine Nabil
Ahmed Morsy

Qarun's third train ready to commence the route of production boost!

Operating since 1995, how do you evaluate the developments of QPC in the Egyptian petroleum industry?

Over the last three years, we won two petroleum shields, which reflect our reputation as one of the best production companies in the country. QPC maintained its production rate at 30,000 barrels of oil per day (bpd) until October 2008. Then, the production volume broke over 40,000 bpd and reached the 50,000 bpd during last year. With the beginning of 2010, we aim at further increasing the production to become over 2009 levels. We look for opportunities, develop them efficiently, and minimizing any bottlenecks.

In 1998, during the early production of Qarun the record stood at 44,000 bpd. Currently, we have over 280 wells; some are performing better than others and it is our responsibility to reach the efficient utilization of those wells and conduct operations utilizing the best techniques. We must also understand the importance of "integrity management" to understand and avoid any failure possibilities and react proactively to ensure the success of our operations.

How many concessions are you operating now? How promising are they?

We have eight concessions and they are all

showing a lot of promise. Included in this the East Ras Badran on the Sinai.

What were QPC major achievements in 2009?

The high points were oil production breaking over 50,000 barrels a day, and water injection surpassing 90,000 barrels a day. This was really an achievement considering that we had just two drilling rigs in operation through most of the year. We installed two temporary processing units to help us handle production. Our seismic program East and West of the Nile and in the Qarun concession was done seamlessly.

How far did the current economic crisis affect this company's production and investments in 2009?

As I mentioned earlier, when world oil prices dropped in late 2008 and early 2009, the company continued its policy of maintaining its capital spending within its internally generated cash flow. As a result the company curtailed our capital spending program by almost 50% affecting all regions. In Qarun we downsized the number of our rigs from seven to two. We continued to invest in projects like Karama Power, Pipelines, Waterflood, and a third processing train that will help us improve production efficiencies and operating costs.

What were QPC precautions to avoid the crisis effects?

We decided to reduce the number of wells drilled, prioritizing the best wells first focusing on getting the basics right in operations and cost control.

In your opinion, will the petroleum industry recover and revive once again during 2010?

We are cautiously optimistic that the industry appears to be regaining some stability once again. Qarun has always been a very aggressive player in drilling wells and stable prices make us eager to seize more opportunities. Like the Karama Power Project we are initiating that will be of a great value to our company, and the country. This \$50-million project includes the installation of six gas fired turbines to generate power for field operations. The project will lower costs and emissions by reducing diesel consumption.

Are you planning to increase your investments in 2010?

We are still formalizing our budget for 2010, but we are optimistic that increasing prices will lead to increased spending. We went from seven rigs down to two in 2009 and currently we seek to build back to five.

Is it true there is a delay paying the shares of foreign partners by the Egyptian Ministry of Petroleum?

I believe that the most important thing is that Qarun has enough money to make its payments and that it receives its money from its partners to continue its projects. None of our projects has been delayed because of delays of payments.

What are the main obstacles hindering the foreign investments in the Egyptian Petroleum sector in your opinion?

Awarding contracts should be based on two

factors: quality of service and price. Companies who can deliver more production and reserves should be favored.

Is the company considering any kind of expansion in the field of natural gas in Egypt?

We are currently an oil producing company. However, we are always searching for gas to power our operations and hopefully sell it. We buy gas from the Egyptian General Petroleum Corporation (EGPC) and other sister companies. We need gas for our Karama Project rather than diesel to provide cost savings and reduce emissions.

“**The high points were oil production breaking over 50,000 barrels a day, and water injection surpassing 90,000 barrels a day**”

Are there any news about QPC in 2010?

Our new chairman, Mohamed Mounes Shahat, and I are studying the New Year plans – how to build a company that will work smoothly, take the bureaucracy out of the business, and note that we are a joint venture, not a government company. The QPC team has always believed that QPC can be a more profitable company and more beneficial to the country of Egypt if we are able to maximize production in the most efficient manner.

What are your expectations for 2010?

Right now, we hope to get up to five rigs in operation. If oil prices remain strong and services costs become competitive, we may ramp up our activity level. In 2008, service costs increased to levels that were not sustainable.

Do you have any other exclusive news to Egypt Oil & Gas readers?

We are going to finish the third processing train, which will increase our production capacity from 52,000 to 75,000 bpd, reduce costs and permit QPC to continue to bring new wells on production. We hope that Karama Power Plant will be coming on in February which will lower our operating costs, improve our efficiencies and free diesel up for other users. Also we are going from two drilling rigs to five rigs.

