

## COMPANY PROFILE

# Seven has energy for independent stance

Lagos-based player has made a major impact on the Nigerian oil and gas scene in short time

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**L**AGOS-based independent Seven Energy has come a long way in a short time in Nigeria, a country many outside observers perceive to be a challenging place to do business.

It undoubtedly helps that Phillip Ihenacho, a graduate of the McKinsey school of consultants, one of Seven's founders and now executive chairman, has strong Nigerian roots, is financially astute and has built strong relationships with the Nigerian government.

The company's history only dates from 2004-2005, says Ihenacho, when as an upstream player focused on mature fields it was being "incubated" by US oilfield service company Weatherford, its parent company, which intended to spin it off and list it.

At the time, Seven had small operations in Canada and the US and wanted to enter Nigeria.

**Investor appetite** Ihenacho and some colleagues, building on their previous experience with West African investments, co-invested in Nigeria with Seven's original management team.

"Myself and a few other people I had worked with... for a long time, saw the success Addax Petroleum (now part of Sinopec) had and believed there was room for maybe a dozen Addaxes in Nigeria," he says.

"With the supermajors looking at deep-water, we felt there was room for independents to be consolidators of mature onshore fields."

Struck by the number of opportunities and investor appetite for Nigeria, a country of 150 million people, Ihenacho and his colleagues clinched a deal to complete a management buy out of Seven from Weatherford in early 2008. "It was nothing to do with

gas at all", says Ihenacho, explaining that Seven became associated with this type of asset "because of opportunities to acquire large gas fields at very cheap prices".

Seven spent time and money to understand Nigeria's domestic gas market and found out that power stations used imported diesel as feedstock at a cost, in gas terms, equivalent to \$20 per million cubic feet. "It's incredibly expensive," says Ihenacho.

Market studies by KPMG and IHS established there was significant latent demand for gas in Nigeria, prices were tightening and likely to increase further as industrialisation progressed, creating a "huge partly-met demand for electricity".

Because supermajors were only interested in exporting Nigerian gas in the form of liquefied natural gas, Ihenacho saw an opening for a business supplying the domestic market and began looking for onshore gas, which is cheaper to monetise, in the Niger Delta. At that time, in 2008-2009, the delta had major militancy problems but Ihenacho remarks that "80% of the problems occur in just 20% of the delta" so Seven pinpointed gas-rich, stable areas where it could work.

"We took a long, hard look at the region to identify areas where we felt comfortable and could operate securely and where there were communities with whom we could interact, establish memoranda of understandings and develop good, long term relationships", says Ihenacho.

After talking to non-governmental organisations and the government to gain information on community and security issues, Seven identified a core operating area running south-east from the northern part of Delta state into Akwa Ibom. Dubbed internally as

the Green Zone, Seven has to date only acquired assets in this area.

"There are lots of compelling opportunities so we did not need to look elsewhere", says Ihenacho.

When working out which assets to acquire in its Green Zone, Seven Energy first identifies "creditworthy, high quality off takers" that would buy gas under 10 to 20-year sales agreements.

It would then pinpoint low unit-cost gas discoveries within 100 kilometres of these customers and develop and finance these fields and pipeline infrastructure off its own balance sheet.

Seven has gone through six rounds of equity financing, raising more than \$600 million and also has access to \$200 million of reserve-based lending and project finance. "We're significantly under-leveraged at the moment", says Ihenacho.

**Savings** There has been talk of a listing in London and Lagos by the end of this year but Ihenacho declined to discuss this issue further.

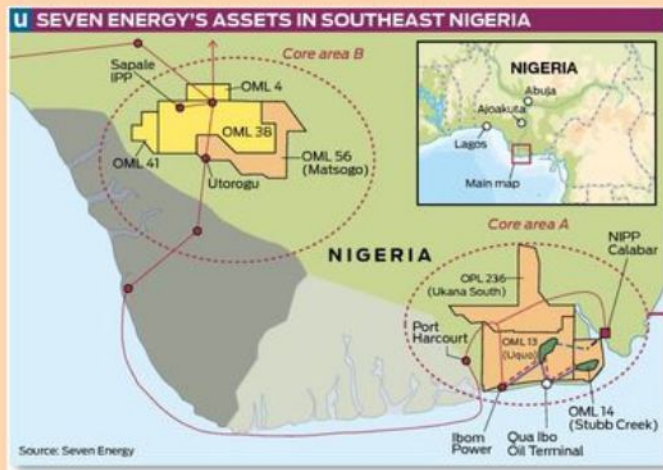
Seven can sell gas at between \$2 and \$3 per thousand cubic feet which, on an after-tax basis, is equivalent to an oil price of \$60 to \$65 per barrel. "It's not a bad price on a cash flow basis. That appealed to us", says Ihenacho.

For the customer, like a cement maker, replacing imported diesel with gas could save \$150 million per annum, he points out.

Upstream and pipeline-processing are the two parts of Seven's business and in future the two are likely to be separated.

"We would look to bring in infrastructure investors and partners into the midstream-down stream business over time. We're nurturing it so it can stand on its own two feet eventually as an infrastructure company," says Ihenacho.

Focused:  
Seven Energy  
executive chairman  
Phillip Ihenacho  
Photo: SEVEN



# Gas is the company's calling card but oil remains an opportunity

SEVEN'S executive chairman Phillip Ihenacho says that while the company has not been and is not exclusively focused on gas, this business model "distinguishes us and is a calling card that allows us to get into opportunities that other people perhaps don't see or are unable to deal with".

He says Seven would "absolutely be interested in oil", adding that two assets in which it has a stake are currently producing oil with a third on the way.

Ihenacho is referring to its strategic alliance with state-owned Nigerian National Petroleum Corporation (NNPC) and the Nigerian Petroleum Development Corporation (NPDC), its upstream subsidiary.

Last year, NPDC finalised a joint venture with Seplat Petroleum — a

consortium of Maurel & Prom plus two local players Platform Petroleum and Sheba Petroleum — which secured development rights to OMLs 4, 38 and 81 in Delta state.

NPDC operates the acreage with a 55% stake with Seplat acquiring the remaining 45% interest from former operator Shell.

Later, Seven, via its subsidiary Septa Energy, was brought in as a service contractor to NPDC, providing technical and financial assistance in return for production entitlement.

This deal sparked controversy in Nigeria with local reports in June alleging that due process was not followed in bringing Seven on board.

Ihenacho refuted the suggestions at the time and points out to Upstream that Seven has been in

## U SEVEN ENERGY FACT BOX

- **Employees:** 120 people in Nigeria, 25 in London.
- **Skills:** Ability to run two rigs in parallel; sub-surface team; able to lay more than 100 kilometres of 18-inch pipe.
- **Reserves:** 240 million barrels of oil equivalent of proven and probable reserves. Split is about 65/35 gas/oil.
- **Ambitions:** Eventual IPO. Separation of infrastructure business into separate entity from upstream business. Petrofac owns 24.5% of Seven.

dialogue with NNPC and the government "for probably about four years — ever since we've put our hand up and said we're interested in developing gas for the local market".

Seven was supported in this effort by former energy leader Rilwanu Lukman.

Production from OMLs 4, 38 and 81 is currently running at 35,000

barrels per day of crude plus 120 million cubic feet per day of gas.

Previous operator Shell "was practically giving the gas away to the former state-owned power company," says Ihenacho, with gas sales contracts now being put in place.

These assets "sit on a significant gas trunk line into Lagos, which is why we liked it".

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## Petroleum Industry Bill process was too 'ambitious and wide ranging'

SEVEN executive chairman Phillip Ihenacho believes Nigeria's long-delayed Petroleum Industry Bill has suffered because it is so "ambitious and wide-ranging", and suggests the government could have tackled issues more independently.

"In my personal view, it might have been better to tackle things in a discrete fashion, focusing initially on non-controversial issues which could have been passed (by the government) more quickly," he says.

He added that the Bill has a lot of non-controversial issues "but the problem is that it's mixed in with dramatic changes to things like the deep-water fiscal regime, which has raised the hackles of supermajors".

The Bill is not expected to have a major effect on Seven's business but, says Ihenacho, "I would like it to pass, and the worst thing is to leave it hanging for so long".

In Akwa Ibom, first gas from Seven's Uquo field is due on line early next year, providing feedstock for the Ibom power plant via a new 60-kilometre pipeline.

Uquo will supply 44 million cubic feet per day under a gas sales agreement, though the pipeline and infrastructure can handle 200 MMcf/d.

Ihenacho says the line has been oversized because the company is in talks with two other customers, one of which has board approval to enter into an agreement. Once the deals have been finalised, the pipeline will be full.

The nearby Stubb Creek oilfield is also set to come on stream next quarter, initially sending 2000 bpd via a new line to the Qua Ibo terminal, with output expected to hit about 7000 bpd in later phases.

Stubb Creek, whose associated gas will be fed to

Uquo's facilities, is operated by Akwa Ibom state oil company Universal, in which Seven has a 65% stake. The remaining partner is Sinopec.

Ihenacho describes how one of its pipelines traversed 70 communities, each with multiple leaders.

Each community is focused on "what you do for them... and how we have to be seen to treat each community equally," says Ihenacho, stressing that "you have to be humble".

Within each community, he says, you have to deal with multiple leaders, so Seven relies heavily on community liaison officers and non-governmental organisations.

Employment and training are key community demands alongside, if possible, being connected to the electricity grid.

The company builds local content into community deals. So, for example, site preparation work will use local labourers, while welders will be trained for pipeline work.

However, Ihenacho admits that community-related issues are not simple.

"There's always some tension in defining who the community is and who benefits, but we've learned a few things from talking to NGOs who have worked with supermajors," he says.

He describes Seven as just building the "little spurs, little interconnections and little regional pipeline networks" that make up a small element of Abuja's gas master plan which, he says, is "a very useful blueprint in getting people to think about the domestic market".

Seven plans to complete a gas line to Calabar in the dry season, and is looking to work with Oando to perhaps refurbish and operate other pipelines in its core areas.



## Produced Water Management 2012

24-25 January 2012, Stavanger, Norway

The conference is a well known as the major event, in Norway, discussing challenges and solutions related to management of produced water in the oil and gas industry.

### Industry challenges

The amount of Produced Water is increasing as more oil fields evolve. Produced water management has become a major environmental, as well as an economic, issue for both operators and regulators from around the world.

With OSPAR clearly pursuing a risk based approach for the management of produced water the industry has to come up with better and new solutions for management of produced water.

### Program focus 2012

The program committee urge to present a program addressing topics on the industry challenges addressed by presenters that holds relevant knowledge and many years of experiences and who are willing to share and discuss these with the rest of the industry.

Regulatory and Environmental Aspects, Novel Approaches and Solutions, Produced Water Fundamentals, Field Developments and Operational Experiences will be the main sessions for 2012.

### Speakers

Personnel from major operators, governmental bodies, research institutions, contractors and manufacturers will be on the speakers list.

### The delegates

The number of attendees varies from 120 to 140 persons and represent the whole range of personnel working with produced water management.

Attend this event, be better equipped to meet the PW challenges and meet colleagues for discussion in informal atmosphere.

For further information and registration [www.tekna.no/intconf](http://www.tekna.no/intconf) or contact [lio@tekna.no](mailto:lio@tekna.no)