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## MARKETS

EXCLUSIVE

# NW gas in the pipeline

Finavera is set to tap into Ireland's and potentially Europe's largest onshore gas field, reports John Walsh.

**Y**ou may not have heard of the name Finavera yet, but very soon this Irish energy minnow could become the answer to Ireland's looming energy crisis. The company is potentially sitting on the biggest onshore gas find in Europe: it would not only cover 100% of Ireland's energy consumption needs for the next 20 years – if the optimum recovery rates are achieved at the gas field located in the northwest of the country, Ireland could become a net gas exporter.

To put the size of the find in context, the neighbouring Loch Corrib gas field holds an estimated one trillion cubic feet (tcf) of gas. The Kinsale gas field, which has supplied the country for the past 30 years, was just under 2tcf. Current gas prices would mean that 1tcf is worth roughly €5bn. The reserves estimate at the Finavera site is 19tcf and, with a recovery rate of 40%, that would mean that there is roughly 7.6tcf of untapped gas supplies under Irish soil.

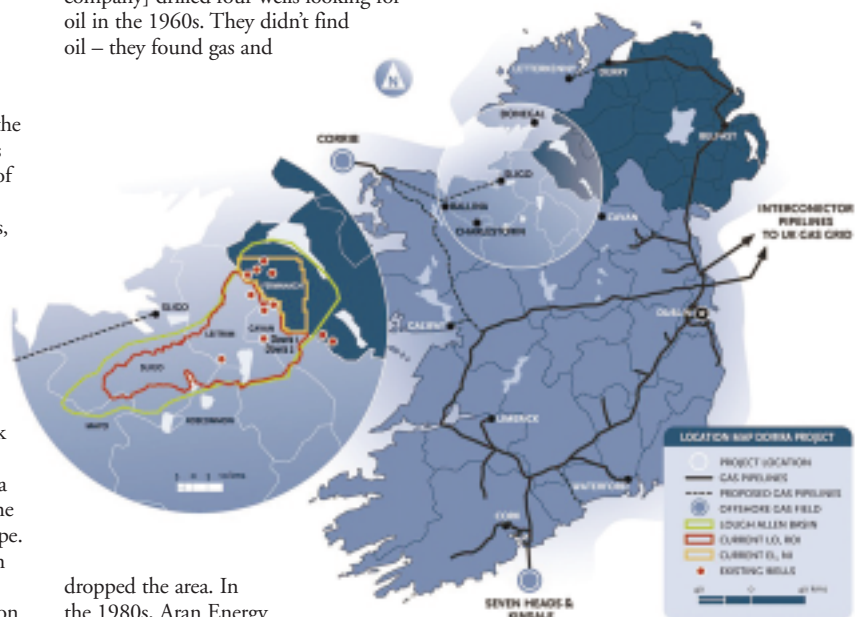
This will cause many in Europe to look on in envy, as the region is increasingly reliant on Russian gas supplies, but Russia is in turn reliant on the Ukrainian pipeline infrastructure to transport its gas to Europe. Even though the recent stand-off between the two countries was resolved without major disruption to supplies, any escalation of tensions in the future will put Europe in a vulnerable position.

All success stories start somewhere, but Finavera appears to have had a peculiarly Irish beginning, as chief executive Tom Davitt explains. "The five of us that set up the company all had backgrounds in natural resources. We came together in a pub in Ballsbridge and over a few pints we

came up with Finavera, which is a natural gas play in the northwest of Ireland."

That was in September 2003. But the acreage where the gas reserves are located had been appraised by a number of companies before Finavera got its hands on the exploration licence. "Marathon [a US oil company] drilled four wells looking for oil in the 1960s. They didn't find oil – they found gas and

strange – but inconclusive and not an aggressive work programme, so we decided to take a look at it," he says. "We found out that the company did not carry out the level of activity we thought they might have had and that we would like to pick up the licence options to investigate further."



dropped the area. In the 1980s, Aran Energy went back in and drilled another few wells and found gas again and improved the flow rates. But it was not significant enough to be economic," says Davitt.

"A company [US-based] called Evergreen relinquished the licence [in 2003]. And they had carried out a work programme that we thought was a little bit strange – well, not

Following successful negotiations with the petroleum affairs division at the Department of Communications, Marine and Natural Resources, Finavera took out an option on the field, retained the international oil services company Schlumberger and spent the next 18

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months looking at the assets. Davitt claims the reason Evergreen left the field without realising its potential was because it used inappropriate technology and methodology.

"There is other technology and methodology that you can use. That is why we got interested in this area. We showed all the data to Schlumberger. We asked them could this be economically viable if different technology was used. The outcome of those studies was that yes, it could be significantly economic. So we asked them to push on with more studies to quantify the resources in the area. They did a lot of detailed work on reprocessing the data, including the seismic data and re-interpretation and photometric analysis and they came up with an *in situ* resource potential of 9tcf and an estimated recovery factor of 40%."

But that was only for two of the three reservoirs in the area. The third reservoir is potentially the most lucrative. Davitt says the latter has not been fully quantified yet because it is a deep reservoir and it doesn't contain that many data points, but preliminary analysis suggests that it could hold as much as 10tcf. He is "very confident" that the company can achieve a 40% recovery rate on the whole project.

"The spread between the reservoirs is attributable to what are called natural fracture networks in the rocks. The new seismic data will help define these natural fracture networks and we know there are a lot of mapped fault zones, that is why the recovery rate is estimated at 40%," explains Davitt.

The next stage for the company is to get the funding to carry out additional surveys in areas that Schlumberger has identified.

"And then we plan to carry out an appraisal drilling programme with these proven technologies that have not been applied to the basin before and have never been used in Ireland. And if that is successful and meets the expectations of the work carried out by Schlumberger, then we will move towards the development of the field," claims Davitt.

He hopes to have all the seismic work carried out by the end of this summer and the drilling programme on the appraisal wells should begin at the end of this year or early next year. And if everything goes according to plan, Davitt claims gas will be flowing from the development in two years.

Davitt and the rest of the Finavera team are currently on a pre-IPO (initial public



Finavera's Tom Davitt, CEO (left), and Alan Campbell, head of corporate affairs

offering) fundraising round. They plan to raise €10m from this round to fund the seismic work. Then the company will list on the Irish Enterprise Exchange (IEX) in Dublin and London's Alternative Investment Market (AIM) "as soon as possible" to cover the costs of the drilling programme. Finavera is using Goodbody Corporate Finance to advise it on its IPO in both London and Dublin.

"Technically, this is going to be a very challenging project. What's involved is the use of technology that has been proven over the past 15 years in the US and Germany and has never been brought to this country. And it requires expertise that can only be found through the likes of Schlumberger or a Halliburton," says Davitt.

Finavera will have to make some tough decisions when it comes to developing the assets. The resources and expertise needed for this type of project are well beyond anything at the disposal of Finavera. There are two clear choices. It can continue to work with Schlumberger or some other oil services company – or take in a partner in the form of an oil company. At the outset, Shell would be an obvious fit, given that it is currently developing the adjacent Loch Corrib gas field. Davitt says that a number of other "very big oil companies" are already interested in getting involved, but he refused to be drawn on who he would prefer as a partner.

"What we want to do is partner with a

group that can achieve what we want to achieve at the lowest execution risk possible. Now. I have no doubt some of that can be achieved with both of them [an oil services group or an oil company], but what it really comes down to is terms. What is the best deal we can get for our shareholders?" He adds that Finavera plans to maintain a "significant interest" in the project all the way through to development.

Does Davitt fear similar unrest about the project that has so far prevented the development of Loch Corrib gas? "The information available to date suggests that it is a low-pressure reservoir, so the pressure at the well-head would be very low and would not pose a risk." But he says that the company intends to address all local and safety concerns in a timely manner with all the stakeholders as the project progresses.

Shell will certainly be interested in how the Finavera asset develops. It has been trying to develop the Loch Corrib gas field since 2001, but local resistance has so far prevented work commencing on the project. The Government has shied away from coming down on either side because of the politically sensitive nature of the Shell-to-Sea campaign.

If the Finavera development comes to pass, then the Government may decide to abdicate its responsibility altogether. ■