

Supplies party

Lacking the immense fields of light crude enjoyed by neighbours such as the UAE and Saudi Arabia, Oman is characterised by smaller fields with heavy oil and tight gas, requiring a services industry that is able to deal with the sultanate's unique, complex geology.

At the start of the millennium, Petroleum Development Oman (PDO) began investing heavily in new technologies to reverse production declines. As a result, during the past five years, Oman has become an oil and gas laboratory of sorts. The implementation of secondary and tertiary recovery methods has provided additional opportunities for local services companies. Intense competition at home, combined with expertise in the enhanced oil recovery (EOR) techniques demanded by the country's fields, may give the sector an opportunity to export its services in the years ahead.

CHANGE THINGS UP

Facing the reality of declining production, Oman finally opened up its exploration and production sector to foreign entrants. Whereas 10 years ago PDO dominated the industry, today there are 18 operators active in the country, with seven currently producing. With more players in the market and continued exploration and development by PDO, there has naturally been a concurrent rise in demand for services and supplies. More seismic surveys are being conducted, more exploration, appraisal and production wells are being drilled and, to the delight of Oman's leaders, more oil and gas is coming out of the ground.

With its unique and challenging character, Oman is at the forefront in the development of enhanced recovery methods that are becoming ever more important in today's industry. PDO is focusing on three such technologies: miscible gas injection, thermal recovery and polymer flooding. It is hoping to take advantage of Oman's geology to perfect the methods. PDO, which in 2010 drilled the deepest well in the Middle East at 7,000 metres, has stepped up its exploration programme, particularly for unconventional gas, and over the next four years the company plans to drill approximately 140 exploration wells.

Sultan Qaboos University is studying the viability of in-situ combustion at the Nimr field, while the Amal field is the site of both steam injection and steam-flooding projects. In 2010 PDO initiated the thermally assisted gas oil gravity drainage project at Qarn Alam. The Mar-mul field, with its heavy crude, became the region's first polymer project in 2010. The success

of such projects is proving a boon to the services and supplies sector, which has already been capitalising on the Occidental Petroleum (Oxy) Mukhaizna steam flood project in recent years.

Mukhaizna is emblematic of the new dynamic in the Omani oil and gas industry. In 2005 the sultanate signed a production-sharing contract with an Oxy-led joint venture to develop the giant field in the south-central region of the country. Through steam flooding, Oxy managed to increase production tenfold by the end of 2009. The sheer scale and technological complexity of the project have offered significantly more work to service providers than traditional projects. While internationals have had a heavy presence at Mukhaizna and other EOR projects, Omani service and supply companies have also played their part.

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Providing specialist services for Oman's various types of field is a niche that local companies have learnt to exploit. Gulf Energy imports and modifies well-servicing technology, perfecting it for Oman's extreme environments. Another local player, Dalma Energy, has utilised its extensive experience to make moves outside Oman, expanding to Qatar, India, Algeria and Saudi Arabia. A panoply of smaller, community-based companies service PDO and other companies' fields in Oman's remote, hostile interior. With the Gulf's highest number of fields, the heaviest oil and the tightest gas resources, Oman needs service providers that can adapt their solutions. Major service companies such as Schlumberger, Baker Hughes and Weatherford have long histories in Oman, but are now facing competition from Omani companies that are often better suited for the work.

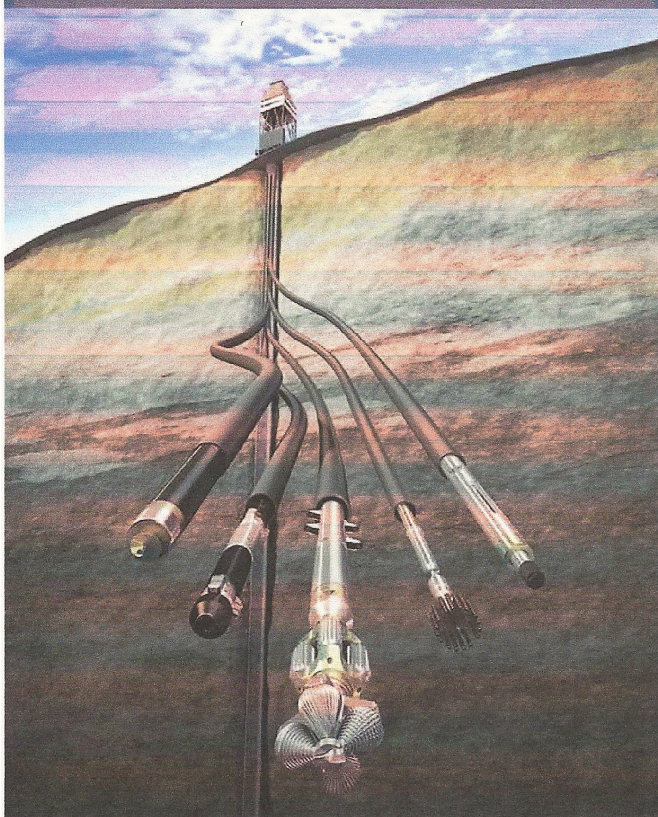
FIGURES

NUMBER OF UPSTREAM OPERATORS IN OMAN

18
2011

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Oxy and PDO's EOR work has increased Omani service providers' capabilities in the oil industry. At the same time, the successful development of tight gas extraction has similarly provided valuable new skills. BP's appraisal of Block 61 could double Oman's proven reserves. For BP, Oman would represent the firm's first major tight gas success in the Middle East. For the Omani service sector, the emergence of tight and unconventional gas is proving to be another niche market, with PDO implementing an extensive unconventional gas programme requiring mobilisation of people and skills across the country. Presently, larger global players are the only ones able to bring tight gas technologies to the region, which has no history of significant unconventional gas production. As the technology matures in the Omani market and new gas explorers produce results, smaller firms will begin to take advantage of the multitude of contracts on offer.

KEEP IT LOCAL

The Omani services and supplies sector has grown partially through PDO and government sponsorship and the movement of Omanis through international and local companies. In 1997 PDO, in partnership with the Ministry of Oil and Gas and local governments, established the local community contractor (LCC) scheme. This scheme offers training and technical support to people living in PDO concession areas who want to start their own service and supply companies. It was designed to help these start-ups acquire business management experience and health, safety and environmental certification in order to compete on the open market. These LCCs thrive with the support of PDO and the government and will begin grouping together in 2011 to form "super LCCs" to service larger contracts. The creation of LCCs is a visible sign of progress in Oman's overall goals of human resources development and Omanisation.

Undoubtedly the LCC scheme has improved living standards in the communities that have participated. However, the programme also highlights the service sector's reliance on PDO and government support. In the past there has been plenty of work to go around due to the sheer number of fields as well as their complexity. The arrival of more international exploration and production companies and the development of EOR has also increased the demand for services in Oman. The local service sector still needs to build capacity and continues to rely on PDO for the bulk of contracts.

Few Omani companies have made a name for themselves internationally. Among pioneers in branching out is Abraj Energy Services, a subsidiary of Oman Oil Company. In 2009 this government-owned drilling company began work on a contract in Fujairah, UAE. Renaissance Services and MB Petroleum Services are global services companies, operating throughout the Middle East, Africa and Asia. Although at this time only a handful of Omani service companies work overseas, as competition in the domestic market intensifies and the need for enhanced recovery grows in the region, so too should the presence of Omani firms abroad. ■