

# The EastAfrican

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NEWS

## Kenya's oil exploration now renews hopes of a major discovery



Workers undertake the first flaring test at the Waraga 1 well in Kaiso-Tonya in Hoima district in western Uganda, 220 km from the capital Kampala. Photo/FILE

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Expectations were once again high in Nairobi last week as news trickled in that CNOOC — the Chinese state-owned company currently exploring oil in Northern Kenya — had hit what oil exploration experts described as a “very high concentration of gas.”

In our issue of October 19-25, 2009, *The EastAfrican* quoted Energy Minister Kiraitu Murungi as “bubbling with optimism” over the prospects of Kenya striking oil. Indeed, he had then said, “In a matter of days, we could be celebrating. God willing, I shall be announcing a historical discovery at the end of the month.”

This time around, government officials were tightlipped, insisting that it was too early in the day to proclaim a breakthrough, but well placed sources confirmed to *The EastAfrican* that CNOOC had indeed found a high concentration of gas — pointing out that the development at the Bhogal Well was the most positive news in Kenya’s search for oil in many years.

The presence of significant amounts of gas is usually taken as a sign that there is oil nearby.

As of last week, CNOOC had dug up to 4,600 metres deep, having reached the depth described as the “secondary target.”

The Chinese have to cover an additional kilometre of distance before they can reach the primary target — the point at which they can declare a “discovery,” depending on what they find at that depth.

Ministry of Energy officials, while describing the development at the Bhogal Well as “very encouraging” and “positive,” disclosed that the Chinese firm indicated they had established a basis for conducting two more three-dimensional seismic studies to determine additional drillable sites.

The Bhogal Well was identified several years ago by European multinationals Amoco and Total as a target with potential for oil.

The point of departure is that the Chinese are digging deeper than anybody has attempted.

At 5,600 metres, the well is the deepest ever in Kenya.

Neighbouring Uganda — with confirmed deposits of an estimated 2 billion barrels of crude — has been hitting oil at a mere 800 metres.

Still, what the Chinese are doing is critically important for Kenya in terms of sustaining the interest of oil exploration companies in the country, which has been low key, especially after 2006, when Woodside of Australia packed up after hitting a dry well in the Lamu area.

Indeed, oil exploration activity in Kenya has been characterised by speculative activity, with companies concentrating in trading exploration licence rights — what is known in trade as “farm-ins.”

Canadian companies, a good number of them listed on the Toronto Stock Exchange (TSX) venture capital board, have been most active in the farm-in deals.

There have been incidents where companies received licences and sat on the papers for some time without even paying surface fee, only to flip the licences to third parties for millions of dollars.

The most lucrative was a deal last year between an entity by the name Turkana Oil Drilling Company and the TSX-listed company Africa Oil.

In that transaction, according to information disclosed at the TSX, Turkana Drilling — which is associated with local Kenya businessman Amyn Lakhani — sold 100 per cent rights over Block 10bb for \$10 million to AfricaOil Ltd.

Right now, Africa Oil — formerly Lundin International — a TSX-listed company, has as a consequence of three farm-ins acquired interests in three exploration blocks, making it the biggest holder of exploration acreage in Kenya.

Africa Oil also a shareholder in the CNOOC block.

### Shareholders

Only recently, Africa Oil made an announcement to shareholders on the TSX that it was negotiating with yet another TSX-listed company, Platform Ltd — which has rights over block 12A and 13T — to acquire rights over these two blocks and thereby entrench itself as the single largest owner of exploration acreage in Kenya.

Africa Oil announced that all it was waiting for was approval from Kenya's Ministry of Energy.

But in a conversation with *The EastAfrican*, Energy Permanent Secretary Patrick Nyoike said the government was not about to allow companies that have not done any work under the licences to sell acreages to third parties.

He said the ministry would not agree to the deal between Platform and Africa Oil.

The latest news in the battle for control of acreage in Kenya has been a sensational dispute for control of 10BB pitting the TSX-listed company Centric Energy against Tullow International of the UK.

One of the largest independent oil and gas exploration companies, with spectacular success in Uganda, Tullow had written to Prime Minister Raila Odinga protesting that the Ministry of Energy had bypassed the negotiations it was conducting with the government to acquire the block and gone ahead to award the block to little-known Centric Energy, which is associated with London-based businessman Alec Robinson.

But the dispute would appear to have been resolved after the Ministry of Energy wrote a letter to Centric suggesting the Canadian company allow a farm-in on a 50:50 basis with Tullow.

"This kind of arrangement is best done and agreed between the interested parties, and this is, therefore, to request you to initiate a dialogue with Tullow on terms which would mutually serve your joint interests," said Mr Nyoike in a letter to Mr Robinson.

Negotiations between Tullow and Centric commence this week.

Whether the parties will agree remains to be seen in view of the fact that Centric Energy had earlier indicated that it preferred a farm-in deal with Heritage Oil of the UK — currently engaged in an explosive battle with Tullow for control of oil stakes in Uganda.

East Africa is now regarded as a promising frontier, especially following discoveries made by Heritage and Hardman Resources (now Tullow Oil).

Countries in East Africa, and on the seaboard from Ethiopia on down to Mozambique, have all begun to benefit from the success in Uganda.

Indeed, what happened in Uganda made it easier for smaller companies to raise funding for exploration in the region.

And with the recent success of Anadarko of the US in Mozambique with the offshore Windjammer discovery, the industry can expect to see even more wheeling and dealing to gain acreage in East Africa.