

 IRAQ OIL REPORT

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Insider's View Bulletin: Dhi Qar province oil sector update

June 6, 2016

Key points:

- Provincial oil fields producing on average 180,000 bpd
- Gas treatment unit at Gharraf oil field expected to come online in June
- Festering dispute with Muthanna province over jointly held field
- Nassiriyah field adding salt separation station for wells with high salt content

Potential IOC impact: IOCs should expect that increases in production in Dhi Qar province will continue to occur at a slower than expected pace as a result of the financial crisis.

EXECUTIVE SUMMARY: Dhi Qar oil officials report that production in the province reached 180,000 bpd in May. Among the major developments in the past month were a developing dispute with Muthanna province over a jointly held oil field, reports of high salt content in several wells at Nassiriyah oil field, and continued delays in the creation of the Dhi Qar Oil Company.

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Details: Oil production in Dhi Qar province reached an average of 180,000 bpd in May, according to provincial oil officials. Nassiriya field is producing 70,000-80,000 bpd and Gharraf field is producing 100,000-110,000 bpd. Both Saba field and the 10th exploratory block held jointly with Muthanna province remain under development and have not yet begun producing. Saba is expected to come online by Q-3 to the tune of 20,000 bpd, according to a local official briefed on the field's development.

Flaring: An estimated 79 Mscf of natural gas was flared at Nassiriyah and Gharraf fields this month, but work on gas treatment units at Gharraf field is expected to be completed in June 2016 and will allow 49 Mscf of gas to be treated and transferred to local electricity stations.

Field work: Drilling works continue at all Dhi Qar fields. The Iraqi Drilling Company is drilling additional wells at Nassiriyah field (31 wells drilled, 18 producing) and Saba field (20 wells drilled, 0 producing), and will begin drilling at Gharraf field (47 wells drilled, 28 producing) this month after the conclusion of the previous drilling contract with the Chinese company Great Wall. In the 10th exploratory block, the Chinese company Bohi has begun drilling work on an initial well in the Khidr district of Muthanna province, according to a local official.

Dispute with Muthanna: One of the major developments in the Dhi Qar oil sector this month was the growing dispute with Muthanna province over the management of their jointly held oil field. Muthanna province requested that the joint field be managed by South Oil Company, rather than the Dhi Qar Oil Company, or Dhi Qar Oil and Gas Commission. Muthanna provincial officials are also reportedly obstructing a Chinese company – CPP – from building oil storage facilities in the province, in an effort to pressure them into hiring additional workers from Muthanna province. Both of these

actions were reportedly in response to a Dhi Qar delegation visiting the 10th exploratory block and, according to Muthanna officials, vowing to exclusively employ Dhi Qar residents at the site, despite the field straddling the provincial border.

High salt content reported at Nassiriyah field: A Dhi Qar oil official said that the high salt content in the oil produced at several wells at Nassiriyah field is an issue of concern at the moment. To combat this, the field is currently mixing the high-salt oil with lower-salt oil from other wells. However, the official noted, this is only a temporary fix until an additional salt separation station comes online at the site. Another potential issue for the future is the water content of the wells. The official noted that some wells are currently 40% water – the maximum allowed – and that if they continue to rise those wells will either be shut down, or an additional water separation stage will have to be added to the production process.

Dhi Qar Oil Company update: The Governor of Dhi Qar province complained that MoO officials are delaying the formation of DQOC, despite it being approved by the Council of Ministers several months ago. He also blamed MoO officials for being uncooperative and poorly managing projects in the province. The Governor also threatened to ban any IOCs found to be purposefully delaying social benefit or other projects in Dhi Qar.

Analysis: Production in Dhi Qar province has remained static in recent months. Though the province hoped to increase its production significantly this year, the ongoing financial crisis has limited their ability to invest in the long-term development of Dhi Qar fields. Projects now are focused on maintaining current production levels and incrementally improving the production process (i.e. expanding gas capture and improving oil quality). An influx of funding from the expected IMF loan and other international funding may allow for additional investment in the province in the upcoming months.

Notably, officials seem to be sounding the alarm about geologic and technical challenges at the Nassiriyah field. Prior efforts to license the field to IOCs sputtered, and it now appears that failure has the potential to come back and manifest in production decreases.

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