Politicians hold sway over US Gulf projects

Granting of permits likely to be slow after Deepwater moratorium

Barry Parker — New York

NEARLY five months after the Deepwater Horizon rig accident in the US Gulf the worst seems to be firmly behind the offshore sector.

The US government has now moved into a report-releasing phase. The emerging flurry has included a release from the Senate sub-committee tasked with promoting small business and entrepreneurship.

The mid-September report has tackled the knotty questions of assessing the economic impact of the original spill and the subsequent moratorium on deepwater drilling in US waters. The report suggests the economic impact has been far less severe than initially feared, including job losses and reduced spending.

Political leaders from the affected region, and shallow-water drillers operating jack-ups in less than 500 ft of water (technically not part of the moratorium) were quick to rebut the conclusions.

Morgan Stanley shipping and energy analyst Ole Slorer offered a view highlighting the political tinges of the situation: "There is no moratorium in shallow-water Gulf of Mexico. Yet only a handful of drilling permits have been issued. The Deepwater moratorium might well be lifted or left to expire, [which is] seen as politically advantageous."

Without a doubt, the impact on the region will linger well past the November 30 moratorium expiry date.

The jack-up sector faces challenges. Speaking about the sub-500 ft segment, Mr Slorer said: "The permitting of new wells after the moratorium will likely continue to be slow in the shallow water."

A recent presentation by Hercules Offshore, the largest provider of jack-ups in the US Gulf, put utilisation in this sector at 76% — down from close to 90% in mid-June.

The data revealed that 99 shallow-water permits were approved between January and May, compared with 31 between June and early September. Only four of these were for drilling new wells, even though an earlier moratorium on shallow-water drilling had been lifted.

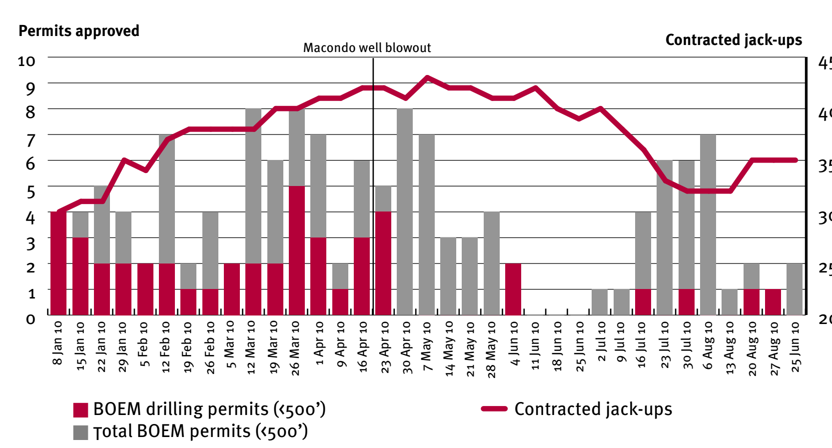
Twenty years ago, the US OPA90 legislation in the wake of the *Exxon Valdez* grounding set a worldwide regulatory tone for tankers. Following Deepwater Horizon, the offshore energy industry is looking towards Washington, now in the thick of the 2010 election season, for the shape of the new regime governing offshore drilling equipment.

Another player in the US Gulf, Seahawk Drilling has hinted it might sell US assets that have been laid up, at a cost of $4,000 per day, to pursue deals outside the US.

"The Deepwater moratorium might well be lifted or left to expire, [which is] seen as politically advantageous"
Ole Slorer, Morgan Stanley

Hercules Offshore jack-up rigs standing idle in the US Gulf: the company says jack-up utilisation is down to 76% from 90% in mid-June. *Bloomberg*

APPROVED SHALLOW-WATER PERMITS VS JACK-UPS CONTRACTED
January 2010 to September 2010



Source: ODS Petrodata
Source: Bureau of Ocean Energy Management

A Seahawk executive told Lloyd's List that it would become more costly to operate off the US Gulf coast and that, possibly, smaller companies could be driven into the arms of larger operators as "they get regulated out of business".

The House of Representatives passed a bill in late July eliminating the $75m cap on liability for rig spills, a holdover from OPA90, and increasing amounts of insurance that responsible parties must have in place.

A group of bills being considered by the Senate propose various combinations of responsible party liability and mutual insurance arrangements.

Even if the liability is not unlimited, after the House and Senate work out the actual language, it will be more expensive to insure assets drilling in shallow and deep waters off the US. ■

Peak oil theorists point towards an upturn for tanker owners

LAST month, the oil world was stunned by the death of one-time Texas energy banker Matt Simmons, who transitioned out of the Houston-based company bearing his name before moving to the coast of Maine (an energy-starved region) to work full-time promoting offshore wind, *writes Barry Parker*.

Mr Simmons, a champion of 'peak oil' theories, looked especially prescient in 2008 as oil prices hit their highs at $147 per barrel, but less so after they crashed to under $40 per barrel six months later.

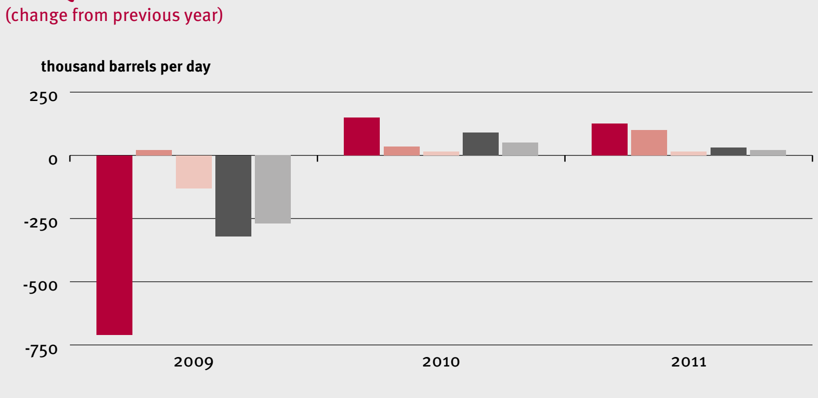
Less than two months after Mr Simmons' death, peak oil theorists were emboldened by reports from Germany that a military think-tank, the Bundeswehr Transformation Centre, was again raising alarm bells of a peak occuring in 2010. Overall oil consumption of 86.6m barrels per day is forecast by the International Energy Association.

Late last year, Cambridge Energy Research Associates, an influential consultant, released a study suggesting supply could peak at 115m bpd in 2030. That view has been reaffirmed by CERA speeches at recent energy conferences.

Such conversations are not simply theoretical for tanker owners, whose investment decisions are predicated on there being an ongoing demand for cargo.

US Energy Information Administration analysis suggests that about half of the world oil demand travels at sea, on tankers. Indications from the charter market are that we could be in an upward phase of the longer-term oil movement cycle.

US LIQUID FUELS COMSUMPTION GROWTH
(change from previous year)



Source: Short-Term Energy Outlook

"Assessments for three- and five-year term charter deals on VLCCs began a gradual improvement at the beginning of the year"

Poten's Marine Projects department, in a recent weekly tanker opinion, noted a stiffening in the term charter portion of the charter market. It writes: "Assessments for three- and five-year term charter deals on very large crude carriers began a gradual improvement at the beginning of the year."

The group also highlighted an increase over the past three months in the number of term charters of one year or more.

"Within the recent uptick in activity, there have been long-term charters reported at rates almost 20% higher than the last reported similar deal," Poten reports.

The charterers behind such deals — big oil companies presumably with armies of analysts — are taking a view, implicitly, that there will be plenty of need to move crude oil in the coming years. ■

Exodus of drilling units fails to materialise

IN THE months following the Deepwater Horizon accident, an exodus of semi-submersibles and drillships in the US Gulf, working on deepwater (or ultra-deepwater) drilling contracts, was one of several dire predictions, *writes Barry Parker*.

Yet the anticipated large-scale withdrawal of units did not happen. At a recent US Senate subcommittee meeting, Department of Commerce official Rebecca Blank testified: "Of the 46 rigs located in the Gulf of Mexico in April 2010, 41 of them are still there as of September 13."

Analysts have enumerated a number of reasons for the lack of departures, including the relatively favourable tax environment in the US Gulf and the costs of demobilising a unit that will be returned to service several months later.

ODS Petrodata head of consulting, Americas, Tom Kellock, told Lloyds List: "As far as we are aware, only four deepwater rigs have left the US Gulf as a result of Macondo and the moratorium."

Mr Kellock said one of these was pre-planned but was brought forward because of the moratorium, referring to the Transocean drillship *Discoverer Americas*, which moved to Egypt under an existing contract.

Oppenheimer & Co shipping and energy analyst Scott Burk wrote in a note on Transocean: "Transocean reached an agreement with Statoil to move *Discoverer Americas* to Egypt to at least February.

"Although the operating day rate is little changed at $486,000, [Transocean] will receive a special standby rate (we model 75% of the full rate) until the rig mobilises to Egypt."

The market for semi-submersibles and drillships is thin, but estimates suggest that day rates have not pulled back significantly during 2010.

Broker Dahlman Rose, which closely monitors the health and prospects of listed drilling companies, cited ODS Petrodata figures showing a steady 90% utilisation for large semi-submersibles throughout 2010. The broker's report described a recent fixture, of six months' duration, of Transocean's Sedco 704, a 1974-built semi-submersible, capable of drilling in 1,200 ft of water, in the North Sea.

As contrasted with its rate of $408,000 per day, signed in August 2008, Dahlman Rose said: "The day rate on the just concluded fixture, with Ithaca Oil, is likely in the $250,000-$300,000 per day range."

A BW Offshore FPSO, *BW Carmen* (to be renamed *BW Athena*), will be deployed at the same field commencing in the second half of 2011, following the drilling and completion phase. ■

US GULF FPSO/SHIP EXITS

Vessel	Geographical area	Contract details
Ocean Endeavor semisubmersible	Egypt	New contract
Ocean Confidence semisubmersible	West Africa	Existing contract
Transocean Marianas semisubmersible	West Africa	Existing contract
Transocean *Discoverer Americas* drillship	Egypt	Existing contract

Source: ODS Petrodata