Politicians full of surprises for Gulf of Mexico drillers

Opposition to president Barack Obama's offshore drilling moratorium is growing at the highest levels

BARRY PARKER – NEW YORK

IN CONTRAST to the offshore industry's increasingly bullish outlook, the mood around its birthplace — the Gulf of Mexico — continues to be sombre.

Nearly 11 months after the Deepwater Horizon accident, crude prices above $100 per barrel have caused President Barack Obama to muse out loud about tapping the Strategic Petroleum Reserve.

Jim Adams, president of the Offshore Marine Service Association, a trade organisation representing operators of offshore supply vessels in the region, has criticised the "Obamatorium" on Gulf of Mexico drilling.

He claimed that "other countries are taking advantage of the Obamatorium by putting our best equipment to work for them. Oil rigs and the jobs that go with them are being forced to leave our country".

It was against this backdrop that speeches by former presidents George W Bush and Bill Clinton at the IHS-CERA energy conference, held last week in Houston, were subject to a media black-out.

Fortunately, bloggers have been working overtime, offering snippets of the proceedings.

Pro-drilling Mr Bush stuck close to home territory, saying "all the things you'd expect him to say" about speeding up the permit process that would allow offshore exploration to resume in the deepwater US Gulf, reported the well-known blog Politico.

Mr Clinton, who in 1999 had famously vetoed legislation that would have allowed drilling in Alaska's National Wildlife Refuge, reportedly said: "You would be surprised to know that I agree with all that [speeding up the permit process]."

Todd Hornbeck, chief executive of Hornbeck Offshore Services, has been an outspoken critic of the US Department of the Interior, the agency in charge of drill permits.

In 2010, his company had filed two legal suits in Federal courts opposing the drilling moratorium, coining the phrase "permitorium" in the process.

In its latest in a series of legal victories, a Federal court has ruled that Hornbeck Offshore can recover its substantial attorney's fees from the DOI.

For the first nine months of 2010, Hornbeck Offshore's "general and administrative expenses" were nearly $5m higher than for the previous year.

According to the Politico blog, Mr Clinton said there were "ridiculous delays [to the permit process] when our economy doesn't need it".

Mr Clinton's remarks are significant because he has held sway with President Obama on matters of policy in the past.

In the US Gulf coast states, drilling will play an integral role in the upcoming elections. Mr Obama — who has vacillated between pro-drilling and no drilling — may yet surprise the industry in a positive way. ■

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Hornbeck: filed two legal suits in Federal courts in 2010 opposing the drilling moratorium. *Bloomberg*

Surging ahead: DOF claims that the fair market value of its fleet has been stable or slightly upward since 2007. *Bloomberg*

US offshore supply operators edging on to the global stage

THE US government's offshore drilling moratorium has propelled rig owners on to the international market, *writes Barry Parker*.

Louisiana-based Hornbeck Offshore Services credits employment outside of the Gulf of Mexico for boosting its utilisation beyond what it would otherwise have been.

In a late February conference call, Todd Hornbeck, president and chief executive of Hornbeck Offshore and chairman of the Offshore Marine Service Association, said the company would "mobilise our vessels to markets outside the Gulf of Mexico as the rest of the world pursues drilling at a rapid pace".

Hornbeck Offshore revealed that two vessels would be working in French Guyana at a dayrate of $440,000 — likely to be alongside the Ensco 8503 and sublet to Tullow by Cobalt Drilling, which was unable to obtain a permit for planned drilling in the Gulf of Mexico.

Ironically, Hornbeck Offshore credits at least a portion of its top line improvement in 2010 against 2009 to cleanup work for its vessels, following the Deepwater Horizon accident.

Still, the company is in a tricky position. As a cheerleader for the Gulf of Mexico's offshore service sector, Hornbeck Offshore cannot reposition its entire fleet en masse. However, such concerns must be balanced against responsibilities to protect shareholders' interests.

Fellow US offshore operator Tidewater's utilisation statistics underscore the concerns expressed by Hornbeck Offshore.

Tidewater's international crew/utility segment saw 81% utilisation in the quarter ended December, 2010, compared with an abysmal 26% for its US-based vessels in that segment.

International dayrates on its modern vessels built post-2000, at around $14,000, are nearly double those earned by its older units. With a new construction programme of 37 vessels, Tidewater's modernisation strategy will boost the dayrates across its fleet.

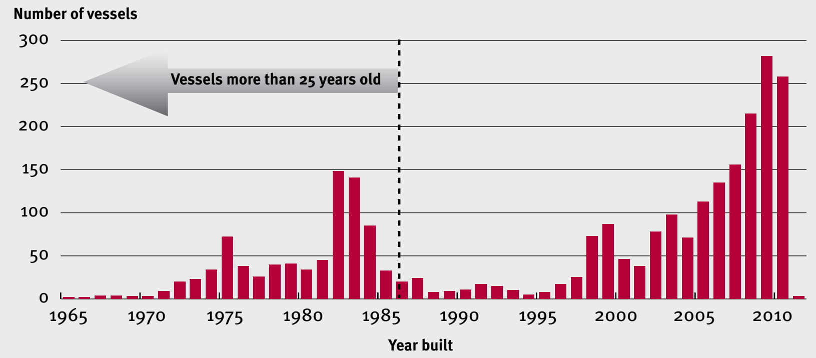
Location matters — in early February 2011, Norwegian offshore operator DOF said that, overall, the fair market value of its fleet had been stable or slightly upward since 2007. In contrast, the company said that the fair market value of its Brazilian-built vessels had increased 25% during the time period.

Over time Tidewater's markets have moved away from the Gulf of Mexico — by number of vessels, the mix has shifted from 38% in 2000 to a mere 6% 10 years later.

Some 47% of its working vessels are deployed in West Africa. ■

GLOBAL FLEET — ANCHOR HANDLING TUG SUPPLY AND PLATFORM SUPPLY VESSELS

1965 to mid-January 2011 (estimated). Retirements expected to exceed new deliveries



Source: ODS-Petrodata and Tidewater

Global fleet estimated at 2,588 vessels, including 331 vessels that are more than 30 years old (13%) and another 454 vessels that are 25-29 years old (18%).

Strong foreign markets boost prospects for services sector

OFFSHORE drilling has entered a boom phase, *writes Barry Parker*.

Dahlman Rose analysts Jim Crandall and Omar Nokta talk about "a long up-cycle ahead" for exploration and production spending, pegging expected 2011 expenditures at $490bn worldwide, with a compounded annual growth rate of 12% from 2011 through at least 2015.

The recent results of several offshore supply vessel operators — Tidewater, Solstad, DOF and Havila Shipping — reveal the broader trends at work, such as the weak US market and the strong foreign markets.

At a time when conventional shipping companies are still having difficulties raising finance, the results show that the operators are managing to fund their capital requirements. As their asset prices show, participation in the offshore supply vessel sector is moving towards greater capital intensiveness.

Tidewater

TIDEWATER benefited from the cleanup efforts in the Gulf of Mexico during the spring and summer of 2010, but relied on the international markets for the majority of its income.

During the last quarter of 2010, Tidewater's US-flagged fleet showed 52% utilisation, against close to 64% for its much larger international fleet of anchor handlers, crewboats and platform supply vessels. The operator has a working fleet of 280 vessels, with nearly half of its non-stacked vessels working in West Africa.

Modernisation for Tidewater means much more expensive equipment.

"The company's vessel construction programme has been designed to replace, over time, the company's older fleet of vessels with fewer, larger and more efficient vessels," it said in a recent filing.

Tidewater has raised $425m of low-cost, nine-year unsecured notes in a private placement, and has arranged new bank loans of $575m — $125m of term debt coupled with a $450m 'revolver' debt.

Interest rates on the term debt and revolving portion vary according to the ratio of funded debt/total capital.

If borrowing at eurodollar rates, then Tidewater will be paying London Interbank Offered Rate plus margins ranging from 1.5% to 2.25%, depending on leverage. Rates near the lower end would have applied, based on end-2010 financial results.

DOF

DOF, with 70 vessels in total, reported in its fourth-quarter 2010 results a 91% utilisation of its platform supply and anchor handling vessels — almost all working in term deepwater business. The operator's subsea business with 25 vessels saw utilisation of 89%.

DOF has recently announced extensions on new contracts in addition to new business.

In Brazil, a key segment for DOF, its survey ship *Geograph* is beginning a new five-year contract with Petrobras, while its *Skandi Leblon* — a Brazilian-built platform supply vessel operating in the 21-vessel Brazil-based Norskan fleet — has just signed a four-year contract with Petrobras.

Since late 2010, five newbuildings have been delivered, going on charter to Statoil, but also to Petrobras and new Brazilian entrant OGX. Nine more vessels are set to be delivered in 2011.

DOF has taken advantage of low interest rates, rearranging its finances as it completes a capital expenditure programme on the back of a contracted backlog estimated to be NKr35bn ($6.2bn) including options — more than four times annual revenues.

This type of forward revenue visibility — 75% in 2011 and 57% in 2012 — has enabled DOF to issue two bonds: a NKr750m three-and-a-half year bond placed in October 2010, and a four-and-a-half year NKr600m issue in November 2010.

The operator refinanced NKr2.3bn of bank debt, and was able to secure NKr1.3bn of new debt against newbuildings scheduled to be delivered this year.

Havila Shipping

IN NORWAY'S very active bond markets, Havila Shipping was reported to be organising a six-year bond for NKr600m.

It will be a secured bond tied to financing specific assets — in this case, the maintenance, inspection and repair vessel *Havila Subsea*, scheduled to enter into an 18-month charter with further options to Subsea 7. The vessel is completing major refurbishment at the Havyard Leirvik shipyard.

Solstad

ANOTHER Norwegian operator, Solstad, with a fleet of 47 boats and three new-buildings, has also been active in Brazil.

In early March, Solstad announced that its platform supply vessel *Normand Vestor*, previously on contract to Halliburton in the North Sea, would be shifting over to Brazil, beginning a four-year contract with Petrobras.

This follows a letter of intent from charterer Technip to extend an existing contract on its construction support vessel *Normand Progress*, also working in Brazil.

Solstad last month completed a senior unsecured NKr700m bond issue maturing in February 2016, NKr110m of which goes towards refinancing to issues maturing in the first half of 2011.

The operator has recently taken delivery of the large construction support vessel *Normand Pacific* (20,560 bhp), and another, *Normand Oceanic* (26,000 bhp), will be delivered from STX later this month.

Solstad said that NKr875m in finance, which amortises according to a 15-year profile, is in hand for the new vessel.

Solstad financial materials released in conjunction with its bond issue, which was said to be oversubscribed, provides a high level appraisal of the markets for offshore supply vessels.

In the construction service segment, which includes vessels handling subsea operations, 2011 was described as "a fill-in year" in advance of a more favourable market in 2012 and onwards. According to Solstad's analysis, "clients are building substantial revenue backlogs".

A less than rosy outlook is offered for the anchor handling tug supply sector, where rates and utilisation are described as weak, following substantial vessel deliveries during 2009 and 2010.

Solstad, with four large anchor handling tug supply vessels trading spot in the North Sea, presents a more positive longer-term outlook, based on more deepwater rigs entering the market during 2011, 2012 and 2013, emphasising the North Sea and Brazil. ■

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