Pipelines gain favour over tankers

US Gulf projects indicate positive economics for undersea pipeline option

Barry Parker — New York

UNDERSEA pipelines, rather than shuttle tankers, are emerging as the mode of choice for transporting oil from the ultra-deepwater US Gulf to refineries onshore.

Chevron, operator of the Jack and St Malo fields, last week announced plans to go ahead with the 136 mile Amberjack underwater crude oil pipeline that will connect a planned semi-submersible production hub to an existing platform operated by Shell at the outer edge of the present pipeline network.

Separately, Enbridge is to construct a pipeline to transport gas from Jack/St Malo and from Big Foot, another Walker Ridge field further to the east.

The Amberjack pipeline will be constructed by engineering contractor Saipem and will be operated by Chevron for a Shell/Chevron joint venture.

Cost comparisons are tricky because pipeline construction is site specific. However, one marker is another Enbridge project, a 40 mile line that will connect the Big Foot crude well (Chevron, Statoil and Marubeni) through a 20 inch line to an existing piping network.

This project, in the central US Gulf, is reported to be costing $250m, or around $6m per mile. The Amberjack cost per mile will probably be lower, but of comparable magnitude.

The line's cost comprises a fraction of the overall cost of the planned floating hub, which is majority-owned by Chevron and moored in waters of 7,000 ft depth.

The new facility will be capable of producing 170,000 barrels per day of crude oil and 42.5m cubic ft per day of gas when it comes online in 2014.

Chevron has estimated that, between them, Jack and St Malo hold some 500m barrels oil equivalent of recoverable reserves.

As with other offshore hubs operated by oil majors far out in the US Gulf, expansion and the ability to support new fields is built into the design. For example, Chevron's Buckskin field (where oil was discovered in 2009), adjacent to the Jack field, is an area for potential development. If sanctioned for commercial development, it too would be tied in.

Overall, Chevron will be budgeting a capital spend of $7.5bn on Jack/St Malo, including the floating hub.

Chevron's hub, a floating platform, like the well-known BP installation at Thunder Horse, will differ from Shell's Perdido facility, where a production facility sits atop a 555 ft cylindrical spar, with Chevron and BP also participating in ownership.

Perdido began operations in the first quarter of 2010 in the western US Gulf. It is moored in waters of roughly 8,000 ft depth, where it gathers crude production from a combination of vertical wells, and subsea linkages.

Nearby producing fields include Tobago, where a well is being drilled in 9,300 ft of water.

Starting in early 2013, the Amberjack pipeline will be laid by Saipem's dynamic positioning-3 pipelaying ship *CastorONE*, to be delivered in mid 2011, from the Yantai Raffles shipyard in China.

Originally contracted in 2007 at a price of €530m ($700m), delivery has slipped from the original early-2010 target, possibly a blessing in disguise in view of the strengthened rate environment across the ultra-deepwater spectrum.

Yard delays are a sign of the booming times. On Saipem's investor conference call last week, chief executive Pietro Franco Tali explained the decision to move its newbuilding generation-6 semi-submersible Scarabeo 9 out of Yantai Raffles for installation of the drilling system at Keppel in Singapore.

Mr Tali told investors that the vessel had left the Yantai yard in China. "The reason for deciding to move the rig was because our view is that Yantai was overloaded," he said.

"There were five or six rigs that were approaching the commissioning stage, all of them at the same time, so we decided to move the rig."

Once completed, the rig will be mobilised to Cuba, where it will be drilling for Repsol.

Deutsche Bank, in a detailed research report prepared during the first quarter of 2010, has provided indicative economics for *CastorONE* that show financial visibility in the absence of reported numbers from Amberjack.

Deutsche Bank's base case for economic modelling, using complex calculations to get from actual contractual provisions to an approximate day rate, uses an equivalent day rate of $368,000 and operating expenses of $100,000 per day. ■

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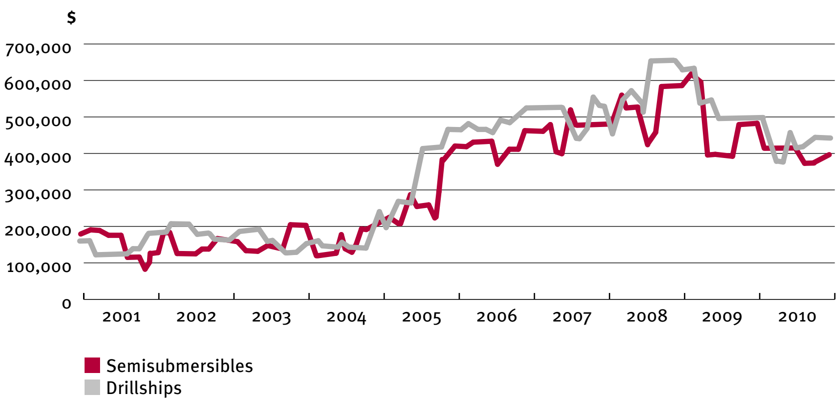
ULTRA-DEEPWATER DAY RATES WORLDWIDE



Source: ODS Petrodata

$6m
Cost per mile of pipeline to connect Big Foot well to existing network

Safety first: *Deep Ocean Ascension* is taking over from Homer Ferrington, inset, for unspecified "operational reasons".

BP replaces Noble rig in Libya field with Pride drillship

THE IMPACT of the Deepwater Horizon accident is being felt as far away as the Gulf of Sidra, in Libya, where BP had been set to drill, *writes Barry Parker in New York*.

In what has been painted as an abundance of caution, citing unspecified "operational reasons", BP has decided to switch out the rig originally intended to drill — Noble's semi-submersible Homer Ferrington.

In its place, Pride's drillship *Deep Ocean Ascension*, which is already contracted with BP at $540,000 per day for five years and is awaiting word on mobilisation while a special rate of $360,000 per day applies, will be substituted to explore under BP's controversial deal with Libya.

Pride chief executive Louis Respino explained that the company's contracts with oil majors were not location-specific. ExxonMobil had contracted Homer Ferrington initially to drill in Libya, with exploratory activity commencing in July, 2009 at block A1-20/3.

After starting work under the three-year contract at $537,000 per day, Noble's charterer then sought to assign the contract to BP. After the two majors got into a contractual tussle and hire payments stopped, Noble sought to arbitrate with both.

On Noble's recent conference call, chief executive David Williams said: "Resolution of this dispute could take some time. However, at this point the rig continues to be ready to operate."

Because this is about Libya, real and imagined political angles abound. Far from Houston, political bloggers at the prestigious Foreign Policy magazine have noted the controversy. Its Oil and Glory blog opined: "The first possible signs of a new, far more careful BP showed up this week."

It added: "No one is saying why Homer Ferrington is more suitable than *Deep Ocean Ascension*."

Politics aside, it is safe to speculate that the optics of employing a 2010-built, self-propelled unit are better, for BP, than utilising a 1985-built semi-submersible. ■

GULF OF SIDRA

Source: petroleumreports.com

Pride expands deepwater fleet with $600m order

THE race into deeper waters continues, with Pride International ordering a dynamic positioning-3 drillship with 12,000 ft capabilities from Samsung Heavy Industries' Geoje yard in South Korea, for delivery in mid-2013 with an option to build a second unit, *writes Barry Parker in New York*.

In line with recent ordering from Seadrill and options from OceanRig, the rig will cost Pride about $600m.

Oppenheimer & Co analyst Scott Burk said: "We have now seen potential orders for 10 newbuilding drillships (three firm) in the last two months. Given current shipyard prices, we would not be surprised to see additional orders from other drillers."

At a recent Jefferies conference, Pride chief executive Louis Respino said Pride had gone through "an extreme corporate makeover" in recent years, shifting from a diversified asset portfolio to a company focused on deepwater.

From an 18% share of 2004's smattering of revenues, Pride expects to earn 75% of its revenues from the deepwater segment in 2013, including fees for managing the Thunder Horse platform in the US Gulf for BP.

The soon to be delivered *Deep Ocean Mendocino* drillship is slated to go on a five-year Petrobras charter in the second quarter of 2011, working in the US Gulf at $502,300 per day, while sistership *Deep Ocean Molokai*, which is being delivered in 2012, is so far unfixed.

In his presentation, Mr Respino said opportunities for dynamically positioned rigs in 2011 and 2012 were appearing, dominated by Brazil, which could need four to six rigs in the next few years, and West Africa, where there could be demand for five to seven rigs.

Speaking on the likely rate environment in the ultra-deepwater sector, Mr Respino pegged the market at $400,000-$450,000 per day now, adding that "the longer that we wait", the better it gets.

Dynamic positioning is an alternative to mooring a vessel. It uses GPS to guide a computer that tells the thrusters what to do. The net effect is that the DP rig or vessel stays on station through the precision of the thrusters on the bow, stern and sides.

The advantages of DP units versus moored rigs, said Mr Respino, include no need for anchor-handling tugs, "which, in an up cycle, can be very expensive".

Pride's financing activities reveal positive views about deepwater prospects; it raised $1.2bn of bonds ($900m due 2020 and $300m due 2040) in the summer, and boosted the size of its revolving credit to $720m.

The Oppenheimer financial model projects a nice bump in earnings from the new drillship, assuming financing divided equally between existing cash and bank debt.

Yet the analysis also considers the alternative of financing the new order entirely with debt. Pride's debt/capital ratio is predicated on the constraints of maintaining an investment grade rating.

The restatement of the company's revolving facility (still undrawn upon) at the end of July speaks volumes about lenders' willingness to gain exposure to the sector. As the loan was finalised, the 16 institutions already in the credit, led by Citi, Natixis, Wells Fargo and ING, were joined by a new lender, NIBC, raising the deal's size to $750m.

Subject to maintaining its investment grade ratings (S & P rating BBB+, or above), Pride can borrow from the bank syndicate at the London interbank offered rate plus 200 basis points.

Pride has been mentioned as a possible acquisition target, but this may not happen quickly. Oppenheimer's Mr Burk points out that with attractive pricing available to drillers from yards, "metal" (ie, actual orders) is still cheaper than "paper" (buying an entire company, likely at a premium to net asset value in a sector that has done well lately).

Another impediment to any takeover is that debt providers must be completely on board, which is likely to narrow the list of acquirers to even stronger credits — although an acquirer could potentially recapitalise with additional equity.

Acquirers would not be able to tap into Pride's revolving facility. Any change of control (with a 30% threshold) is considered an event of default, meaning that outstanding sums would instantly come due.

The company's high-yield bond debt is also subject to tough language on any change of control (with a 50% threshold) where credit ratings come under review. Essentially, bondholders could require Pride to buy back its debt. ■

75%
Pride's projected proportion of revenues from deepwater, 2013