Regulatory delays pose threat to US Gulf rig deal

Noble and Marathon Oil in dispute over force majeure application amid uncertainty over new containment rules

Barry Parker

EVEN though the drilling moratorium in the US Gulf of Mexico has ended, the inability of the US regulator to finalise its new regulations is leading to a possible cancellation of a multi-year ultra-deepwater contract.

Marathon Oil, which had hired Noble Energy's semi-submersible Noble Jim Day at a day rate of $514,000, has the right to terminate its contract if the rig does not begin work by the end of the year.

According to Noble, Marathon has pointed to unclear regulations on deepwater drilling, and seeks to apply a force majeure, even if the rig is ready by the year-end deadline.

At an early December Jefferies & Co conference, Noble chief financial officer Tom Mitchell provided an example of such uncertainties, referring to a new set of regulations, NTL -10, which require operators to have both "subsea and surface containment arrangements".

"Nobody really knows what that means," Mr Mitchell said. "It was not defined."

The unit had been contracted to drill at water depths of 1,000 m in the Ozona field, where Marathon holds a 68% interest.

According to Marathon, the intention had been for the rig to finish off an appraisal well that would then be tied to Shell's massive Auger platform, in the western US Gulf.

Prior to the moratorium, Marathon had been anticipating production at Ozona to begin in 2011.

In statements, Noble said that it was continuing to work with Marathon, but that it would be looking into alternative possibilities for employing the rig, if uncertainties prevented the oil company from accepting the rig.

Although day rates for ultra-deepwater capable "floaters" have recovered, hires on new deals will likely be in the low to mid-$400,000 range.

In a few other cases, where acceptance of equipment was impeded by uncertainties on the new regulations, and lack of fresh permitting, in US Gulf deepwater drilling, compromises have been reached.

Ensco has provided useful templates for handling such disputes. In early November, the company had agreed to a standby rate with Nexen for its semi-submersible Ensco 8502, which had mobilised into the US Gulf for exploratory drilling, following its delivery from Keppel FELS, only to be mired in the permitting purgatory.

In early December, Ensco said that it had agreed on a sublet deal for the next rig in a seven-unit series of Keppel newbuildings.

At the Jefferies conference, Ensco vice-president Carey Lowe talked about the numerous economic and learning-curve benefits of building identical rigs, adding that the use of the six ram blowout preventer on the 8500 series "will not just be specific to the Gulf of Mexico — it will spread elsewhere".

Ensco 8503, which arrived in the US Gulf in late November, had been set to begin work in the Gulf with Cobalt Energy for two years, with two optional years, at a hefty rate of $520,000 per day.

Cobalt, which is also active in offshore Africa, had refiled permitting applications with the US regulators in November, for two prospects.

It has sought to drill at its North Platte-1 and Ligurian-2 prospects, at a depth of 5,000 ft. After initially agreeing on a standby rate of $210,000 per day, Ensco has now struck a deal with Cobalt under which Ensco 8503 will be sublet to Tullow for a three-month contract drilling in coastal French Guiana at $440,000 per day.

The deal features a joint acceptance of the rig in the US Gulf by both Cobalt and Tullow, paving the way for a smooth return to the US Gulf, in the second quarter of 2011, when the rig will either commence its contracted work, or be paid at the standby rate.

For Noble and its peers, the situation is uncertain, as the rigs may seek work outside the US Gulf. Oppenheimer analyst Scott Burk cautions that the Marathon/Noble dispute "could spark another round of force majeure declarations as other operators grow frustrated by the lack of permitting activity."

Mr Burk and others have mentioned standby deals that are now expiring, where Transocean continues to negotiate with its customers Anadarko, BHP and Shell, all of which are hoping to drill in the US Gulf.

Noble's Mr Mitchell, in his Jefferies presentation, said that uncertainties might not be resolved until mid-2011, citing rising oil prices and the number business-friendly Republican House of Representatives taking office in 2011. ■

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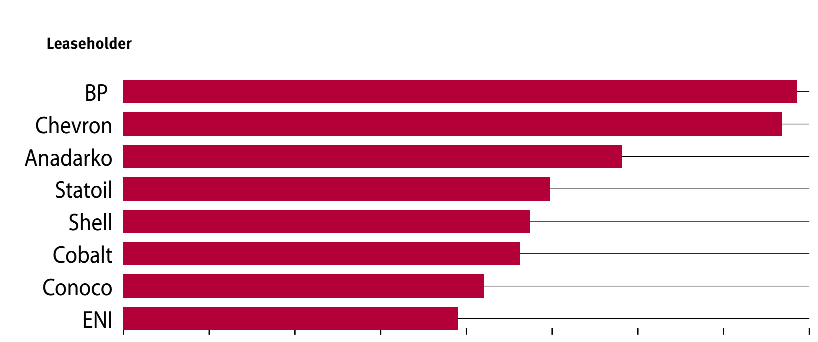
Shell's Auger platform: Marathon had intended to finish an appraisal well tied to the platform.

ACTIVE LEASES AND INFRASTRUCTURE

Source: Bureau of Ocean Energy Management, Regulation and Enforcement

NUMBER OF BLOCKS LEASED



Source: Cobalt International Energy

Attention switches to opportunities in southern Gulf waters

IT IS official: the eastern US region — comprising the Atlantic coast off Virginia and the Carolinas — will not be opened up for exploratory drilling, reversing a policy pronouncement made in March, one month prior to the Deepwater Horizon accident, *writes Barry Parker*.

As the Obama administration considers components of its next five-year plan for offshore drilling, its next rounds of leasing auctions will likely be delayed from the original date in March 2011.

Nevertheless, there is action elsewhere in the US Gulf, and further to the south. Noble chief financial officer Tom Mitchell discussed Pemex's efforts at exploring in Mexican waters.

He told investors that the Mexican oil company had now held four tenders to hire jackups to drill at depths of 300 ft, and that it was likely to seek additional units capable of drilling in 250 ft.

Overall, Noble's expectation was that Pemex would be tendering for 15 units.

UK-based Tullow will be utilising the Ensco 8503 to drill in a region called Guyane Maritime, a lengthy swath stretching 300 km parallel to French Guiana's coastline.

Tullow says its licence is in a "proven hydrocarbon basin but is under-explored with only two wells drilled to date, the most recent being in 1978".

> *"Petrobras won't see any of those rigs until 2015. That's good for us as it will tighten up the market"*
>
> **Tom Mitchell, Noble**

Petrobras was also in the news, as it discussed bids received from builders of drillships that would explore the pre-salt depths off the coast of Brazil.

Mr Mitchell said that proposed prices for drillships were high, ranging from $600m to more than $1bn each, and that proposed dayrates (that owners would then charter the rigs to Petrobras) ranged from $600,000 to $800,000.

The high prices reflect the "considerable risk" of such transactions, according to Mr Mitchell, who suggested that the slow contracting process would provide opportunities for owners of ultra-deepwater capable units.

"Petrobras won't see any of those rigs until 2015," he said. "That's good for us as it will tighten up the market." ■

Ocean Rig placement signals optimism about sector

OCEAN Rig continues to be a focal point for the tremendous optimism surrounding the ultra-deepwater segment of the market, *writes Barry Parker*.

In a long awaited development, its parent company, DryShips, announced its intention to hive off a partial stake of between 20% and 22%, with a private share placement with Norwegian investors — a community highly attuned to the drilling and offshore services business.

The development comes after DryShips' announcement that it has obtained a commitment for $325m of bridge financing that will fund the final instalment due to the Samsung Heavy Industries yard, as it takes delivery of its first of four drillships to deliver in 2011— *Ocean Rig Corcovado*.

This unit, which is being delivered in January (or, optionally, a sister to be delivered shortly thereafter) is set to begin drilling in West African waters.

Raising funding for its drillship newbuilding programme will continue to be a challenge for Ocean Rig. Even though George Economou has thus far successfully navigated the financial shoals, DryShips has recently upped its market ante by putting down an aggregate $100m to secure options on an additional four drillships.

Financing yard payments and option deposits, which will be credited towards the $600m cost of each vessel, or $2.4bn in total, is something of a juggling act.

Between September and November, as equity markets were rising, DryShips completed an at-the-market equity sales programme, raising $350m.

In describing the Norwegian private offering, DryShips said that the proceeds — anticipated to be around $500m — would be used " to finance the construction costs of the ultra-deepwater newbuilding drillships under construction at Samsung, to exercise options to build further ultra-deepwater drillships".

Oppenheimer analyst Scott Burk said: "It could be déjà-vu, with concerns about the source of over $2.3bn of more capital, the potential for additional share dilution and delays in getting contracts." ■

> **$600m**
> *Price per vessel of four drillships on order from Samsung Heavy Industries*

Ocean Rig Corcovado: the vessel, or a sistership, is slated for drilling in West African waters.