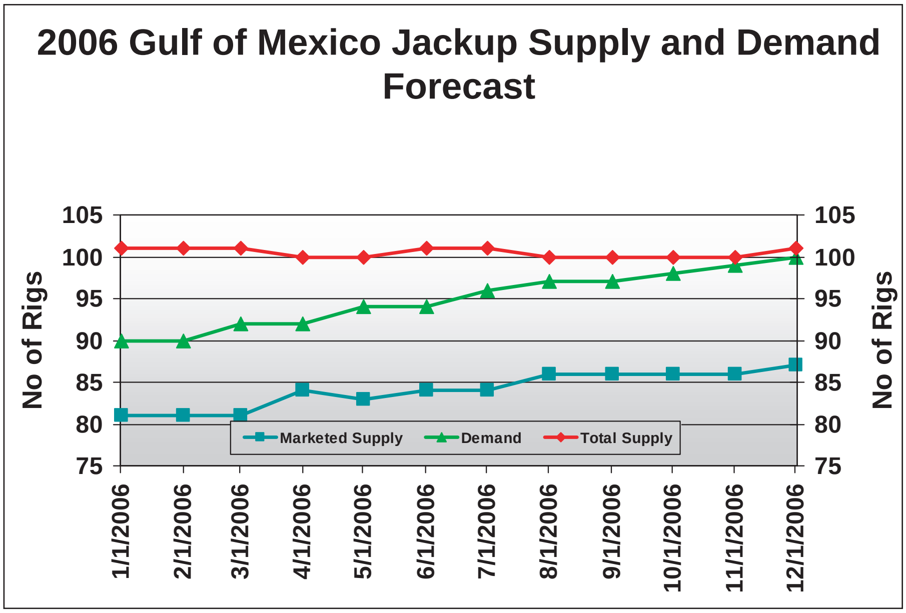
Looking into the GOM crystal ball for 2006

ODS-Petrodata forecasts rig supply and demand



THERE'S NO DOUBT that the Gulf of Mexico rig market is undersupplied. The unknown is: by how much? That's the question **Terry Childs**, rig data manager at **ODS-Petrodata**, tried to answer for the industry on 30 November at the 2005 IADC Drilling Gulf of Mexico Conference & Exhibition. Through a mix of news, data and market intelligence, Mr Childs painted a clear picture of the Gulf of Mexico's 2006 rig market forecast.

One can't talk about the GOM outlook without first looking back at the devastating hurricanes of 2005:

• Between Katrina and Rita, 32 mobile rigs were either destroyed or damaged. So far, five total-loss jackups have been declared by their owners, and at least three more are expected to be announced;

• A total of 14 semis broke loose from moorings or tow lines;

• A few rig contracts were canceled due to a lack of operator cash flow;

• Plans for future MMS regulations for securing moored semis during hurricanes are still being formulated.

Getting past the hurricanes, drilling has been robust and will continue to be for the foreseeable future. That's evident in the number of rigs on order or under construction – 60, with options for 17 additional units.

However, only 11 rigs are scheduled for delivery in 2006 – 10 jackups and one semi. "Can this region attract that many newbuilds?" Mr Childs asked. "The Gulf of Mexico is not the first place one thinks of when the phrase 'long-term contract' is mentioned for a jackup."

Since 1990, none of the 24 jackups built outside the Gulf have ever worked here, although that will change. And only 15 floaters are under construction or on order, with just one delivery scheduled for 2006 and just two in 2007.

"Heavy-lift vessel availability is at a premium and will be a concern," Mr Childs predicted.

So who's ordering the newbuilds? Out of the 60, 26 were ordered by foreign speculators. US-based contractors and established foreign contractors make up the next two biggest groups, with 15 and 14, respectively. NOCs account for five of the orders.

And not only are more rigs being built, reactivations are also on the rise. At **Diamond Offshore**, Garden Banks is likely to head to Singapore for a Victory-class upgrade. Two submersibles have already been announced at **TODCO**, with jackups to follow in 2006.

Despite robust GOM activities, don't expect rigs to mobilize there from Mexico, Mr Childs advised. Since 2002, 22 jackups and five semis have mobilized from the US Gulf of Mexico. Recently, two jackups moved back to the Gulf from Mexico and one will leave for West Africa.

However, a recent **Pemex** tender is expected to require three new jackups. US Gulf rig owners do not want to move equipment back to the GOM but say Pemex must be willing to pay market rates, Mr Childs reported.

Preliminary indications show Pemex will increase rates and that 200-MC units' rates will approach $100,000 in Mexico next year.

By January, eight jackups will have left the Gulf, with two more by mid-2006. Nine of the 10 will have left for long-term contracts. This illustrates a continuing trend of rig requirements in other parts of the world drawing additional jackups from the Gulf. How many, however, is anyone's guess, Mr Childs said.

Overall, the supply in the Gulf is unlikely to change much, with GOM operators signing contracts that will bring three deepwater floaters to the area in 2006 and '07 but with three intermediate water semis leaving.

SKYROCKETING DAYRATES

Dayrates are soaring all around the world, and the Gulf of Mexico is no exception. For example, for the 250 foot-IC rig, fixtures at the end of November 2004 was hovering in the $40,000s. By August, that had risen to between $60,000 to $72,000, a 53.2% change. That was before the hurricanes struck.

Since August, fixtures for the rig have risen to between $75,000 to $120,000 by the end of November, a 155.3 percent change from November 2004 and a 66.7 percent change from August.

For floating rigs, in the 3,000 ft to 5,000 ft category, for example, fixtures went from $85,000 to $100,000 in November 2004 to $270,000 to $320,000 a year later. That's a 220 percent increase.

But soaring prices have not hurt rig demand, which shows industry confidence. Energy demand is predicted to continue to increase by about 2 million B/D in 2006, which is consistent with the historical average of the past several years.

According to estimates by **First Call, Bridge and Banc of America Securities, LLC**, oil prices are expected to stay above $50 for the next two years, at $56.64 in 2006 and at $52.72 in 2007. Natural gas prices should stay around $8.18 in 2006 and change to about $7.68 in 2007.

Mr Childs also made several predictions for the jackup fleet:

• No more than two or three newbuild jackups will be added to the GOM fleet in 2006;

• Reactivated jackups will come out of the yard with minimum 6-month contracts in hand, so the spot market will not be affected;

• Existing demand that was in place for the jackups were removed from the supply – total loss and international contracts, for example – remains in place, but the existing fleet will have to take care of the work;

• The jackup spot market will continue to exist, but the available number of rigs will be greatly reduced and the wait will become longer as rigs will have multiple contracts in place;

• Total jackup supply will decline from 108 units currently to about 100 in 2006;

• The marketed jackup supply will start 2006 at about 81 rigs, increasing to 87 by year's end as reactivations and a few newbuilds are added to the mix;

• Meanwhile, demand will start 2006 at about 90 and increase to about 100 by year's end, resulting in a rig shortage ranging from 9 to 13 rigs.

For floating rigs:

• The market is slightly undersupplied and will remain that way through 2006;

• The look of the fleet won't change much in 2006 as a few rigs will come and a few rigs will go;

• Some operators may be able to secure rig time by farming into properties of those who already have or will have a rig;

• Total floating rig supply will range from 38 to 40 units in 2006;

• The marketed floating rig supply will stay between 38 and 39 units;

• Demand will increase from 40 rigs in early 2006 to 45 by mid-year and remain there for the year;

• Leading-edge dayrates for ultradeepwater units will approach $550,000 in 2006, with rates for shallow-water units reaching as high as $250,000.

Aside from the Gulf of Mexico, Mr Childs also gave insights into several important drilling regions around the world:

NORTH SEA

• This will be the busiest year since 1997, with a shortage of about three marketed semis;

• Heavy-duty jackups will total 12 units when ENSCO 102 arrives from Australia, but there will likely still be a shortage of units;

• In Norway, there will be a shortage of AOC-approved rigs, particularly floaters;

• Trends show fixture for a standard semi off Norway could hit $385,000. The highest current rate is $167,000.

WEST AFRICA

• Region's now firm and undersupplied;

• After years of stagnation, standard semi rates are nearing $300,000, with no availability until at least 2007, and new deepwater rates are at $465,000;

• Jackup tendering has almost stopped due to a lack of rigs;

• There will be an undersupply of two or three jackups in 2006 despite four more due into the region;

• 250-feet IC rates have hit the mid- to high $90,000s and are being offered in the $100,000s. 300-feet IC jackups are now fixing at $100,000 to $115,000. 350-feet IC jackup rates are now approaching $150,000.

INDIA

• Dayrates are increasing sharply due to a shortage of jackups;

• The Indian Ocean demand is due to increase from 27 units to 36 by mid-2006. There will be a four-jackup deficit by the second half of 2006;

• ONGC will add five or six more jackups in 2006;

• Other operators in India want rigs – **GSPC**, **Cairn Energy**, **Gazprom**, **BG** and **Reliance Petroleum**;

• Premium jackup leading-edge rates are already at $130,000 and will go higher;

• There will be a shortage of one to two standard water floaters in 2006.

MIDDLE EAST

• With continuing strong demand, there will be a shortage of jackups starting in the second quarter of 2006;

• Saudi Arabia is currently at 12 jackups and could reach 20 to 25 by the third quarter of the year;

• Qatar is likely to go from 18 jackups now to 22 in 2006;

• Rates for 250-ft jackups are sticking in the $80,000s for now;

• Rates for 300-ft jackups are now reaching the mid-$80,000s outside Saudi Arabia.

BRAZIL

• Although **Petrobras** was caught off-guard by the speed of the tightening deepwater market, it finalized 15 contracts totaling 50 rigs in mid-2005. And with a goal of increasing Brazilian production from 1.7 million b/d to about 2.3 million by 2010, Petrobras is giving longer contracts in exchange for lower dayrates, in the $110,000 to $220,000 range. More recent floater fixtures for other operators in the area is hitting $250,000 to $300,000.

ASIA/PACIFIC

• Overall, floater and jackup supply are on the increase – but the market does need them;

• Six floaters are being added to the Southeast Asian fleet, but a shortage of three semis is still expected in 2006 due to increasing demand off Indonesia, Malaysia and Vietnam;

• Jackup demand will grow from 29 to 34 by the end of the first quarter of 2006, due to increased demand off Indonesia, Malaysia and Vietnam. Supply will increase from 30 to 32 units by year's end due to delivery of newbuilds;

• Good dayrates are causing China's **China Oilfield Services Ltd** (COSL**)** to mobilize three semis to Australia, Malaysia and Myanmar. That's due to COSL wanting foreign currency despite China's growing need for oil.