

SE Asia jackup and floater dayrates skyrocket

THE SOUTH AND SOUTH-EAST Asian rig markets, including Australia and India, are finely balanced markets that, like virtually every other offshore E&P region, is experiencing dramatically increased drilling activity and accompanying high dayrates, some reaching near record rates.

The region has been strengthening for the past year until it finally reached its present balance.

While there are additional drilling opportunities, drilling contractors are concerned that the market's equilibrium could be skewed if additional rigs mobilize to the area.

Activity in the area is also fairly balanced between exploration and development drilling, which helps provide the balanced rig market.

While the region has experienced a good steady activity level, it wasn't until the second half of 2004 that dayrates for jackups and semisubmersibles really began to rise significantly.

One concern among offshore drilling contractors is the number of jackups under construction in the area, primarily in Singapore, which saw 6-8 new jackup orders at **Keppel FELS** in as many months.

There are now 18 jackups on order and under construction in Singapore.

JACKUP DAYRATES SKYROCKET

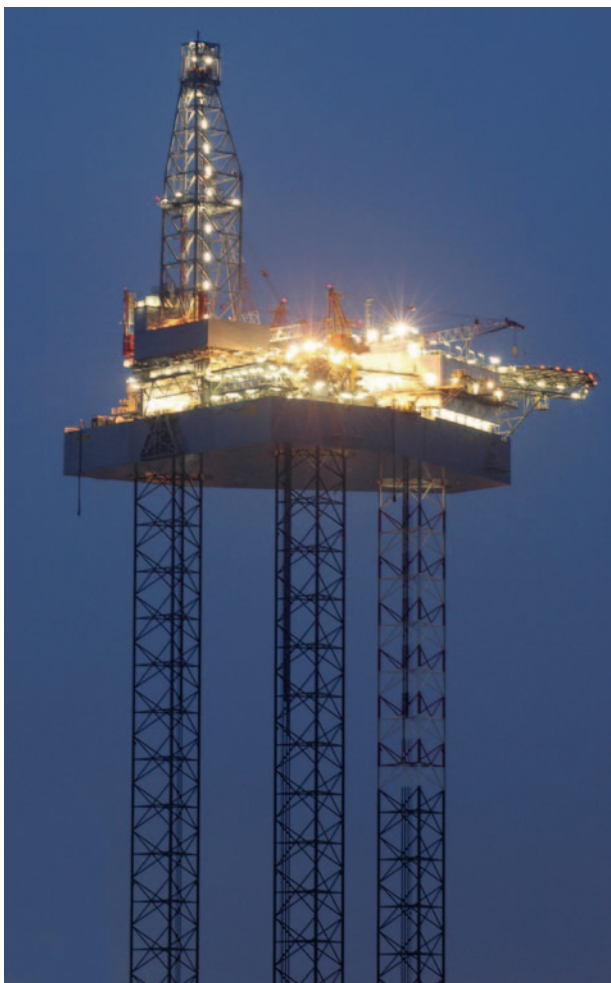
"There is very strong bidding activity throughout the region," said **Richard LeBlanc**, Vice President, Investor Relations for **ENSCO International**.

"I would characterize it as a market with more opportunities than rigs right now."

"The whole sector looks healthy," said **Roger Hunt**, Senior Vice President of Marketing for **GlobalSantaFe**.

"The only idle capacity is in shipyards being upgraded."

That helps explain the dramatic ramp up in dayrates, most of which has occurred since August or September of 2004.



ENSCO International's newbuild jackup **ENSCO 106** was recently delivered from a shipyard in Singapore. The rig is contracted to **Apache Corporation** for drilling offshore Australia. The rig is shown here during jacking trials.

GlobalSantaFe's jackups, for example, have reached rates up to \$80,000 per day.

That occurred during the August/September 2004 time frame when other contractors were bidding around \$60,000, according to Mr Hunt.

"Our view of the market was probably much more optimistic than our competitors," he stated. "That is where I would expect rates to be for premium 300 ft equipment."

The rig receiving the \$80,000 rate was the **GSF Adriatic 11**, which mobilized from the North Sea in 2004, where it was considered to be in the low end of the North Sea jackup market.

GlobalSantaFe's logic was to put the rig in a region where it would be in the high end of equipment. The first job it

received in Southeast Asia was offshore Indonesia at a rate in the \$70,000 area.

The rig began its second job earlier this year offshore Vietnam with the \$80,000 rate.

"The lower end of dayrates for a 300 ft jackup has recently been in the high 50s and some in the 60s," Mr Hunt noted.

"It is a market where people should be thinking in the 70s-plus because over the near term there is very little capacity and there is no immediate capacity. You either have to wait or mobilize a rig from somewhere else."

Atwood Oceanics' jackup **Atwood Beacon**, which is currently operating under a contract that was priced during the July/August 2004 time frame, is working for \$62,000 per day for the firm wells.

The rate will increase to \$77,000 for the option wells if they are exercised.

"The rig's current dayrate does not reflect today's pricing," said **Anthony Gallegos**, Manager, Contracts and Business Development for **Atwood Oceanics**.

"If we had the chance to re-price the dayrate in today's market, the dayrate would be higher."

Special purpose contracts are commanding considerably higher rates. For example, a job for **ConocoPhillips** in Indonesia last year involving the **Atwood Beacon** required many of the rig's capabilities: it was in 250 ft of water alongside a tall platform, with high leg penetrations, and required a long cantilever reach. The dayrate for that particular job was in the \$90,000 area.

"In my estimation, there is little reason to believe we wouldn't be able to replicate that rate if not go higher, provided we secure work opportunities which require the capabilities of the **Atwood Beacon**," Mr Gallegos said.

Mr Hunt agrees. "The market is fully employed, there is some incremental demand and there is no new capacity," he said.

“With jackup construction costs in the \$125-\$135 million range, the rate that you need to generate an 11% rate of return is going to be in the \$85,000-\$95,000 range, and we are approaching that range.

“I think there is more room for price movement,” Mr Hunt continued. “We won’t see all of the 300-350 ft jackups at those prices, but, arguably, until that extra capacity comes on the market, there is going to be a good run.”

NEW JACKUP CONSTRUCTION

New jackup construction in the region is a primary concern of some of the drilling contractors working in the region.

As mentioned above, there are 18 jackups on order or under construction in Singapore with deliveries spread out from 2005 to 2007 and 2008.

This overhang of new construction is worrisome to contractors operating in Southeast Asia.

“The outlook is good in Southeast Asia through 2005 and into 2006,” said Mr Hunt. “The big question mark is the jackups under construction in Singapore.”

Most of the jackups under construction in Singapore are not harsh environment, so their markets are going to be Southeast Asia, West Africa, the Middle East and the Gulf of Mexico.

“The fact that they are being built in Southeast Asia, all of the contractors owning them are going to be looking for placement in that neighborhood,” Mr Hunt said.

Two of the jackups under construction in Singapore belong to ENSCO International. One is scheduled for delivery in December 2005 and another jackup ordered in March 2005 is due for delivery in the first quarter of 2007.

“There will be some additional supply to meet demand (in the area),” said Mr LeBlanc, “but we think the demand is more than adequate to absorb that supply.

“With demand as strong as it is, I think there is certainly a good chance that (new rigs will remain in the area).”

Mr LeBlanc does not believe the influx of new jackup construction from Singapore would significantly impact dayrates in the area.

“Dayrates are at healthy levels right now,” he noted, “and it is not such a huge number of rigs coming all at once, but rather spread over several years.”

Mr LeBlanc adds that operators are requiring more capable equipment due to drilling deeper and oftentimes high pressure wells, and it is high end equipment such as the rigs under construction that will be required to do that work.

“Those companies building them see that demand is there and that the equipment will be put to work,” he said.

While some contractors express concern about the impact of new construction on the region, one contractor believes that some of the rigs are already destined for different areas.

“Our expectation is that some of the jackups are going to move out of the region,”



GlobalSantaFe's jackup GSF 136 is working for Total off Indonesia under a two-year contract. New contracts for 300 ft jackups in the region are receiving dayrates in the \$70,000s and are approaching the \$80,000 mark. Most drilling contractors expect the Southeast Asian market to continue to strengthen.

Mr Gallegos said.

“It’s obvious that some of them are being built on the expectation of deep shelf drilling in the Gulf of Mexico and that some are being built with the Middle East in mind.”

Mr Gallegos explained that some of the jackups under construction in Singapore were being built with shorter leg lengths but with all of the high efficiency equipment.

“You don’t need deepwater capability in the Persian Gulf,” he said, “but they do like all of the bells and whistles that come with those rigs.”

FLOATER MARKET

The Southeast Asian floater market, which includes Australia, has also experienced comparable dayrate increases, in some cases posting 50%-100% rate increases.

For example, Atwood Oceanics’ semi-submersible Atwood Eagle, rated for

5,000 ft of water, is working for Woodside Petroleum presently.

The Atwood Eagle will begin a new contract in August or September with BHP for one-well plus a one well option.

BHP also signed a separate contract calling for eight firm and four option wells for the development of their Stybarrow field off Australia.

Those commitments should keep the rig contracted into the first quarter 2007 and provide for a modest increase in dayrates.

The dayrate for the current seven-well Woodside program ranges between \$89,000 and \$109,000 per day depending upon the water depth.

The dayrate for BHP's first contract involving one well plus one option is approximately \$150,000 per day.

Meanwhile, the Atwood Eagle's dayrate during the Stybarrow development work will be approximately \$160,000 for the eight firm wells and approximately \$170,000 for the option wells.

"The Woodside contract was negotiated last fall," Mr Gallegos noted. "In regards

to pricing, last December appears to have been an inflection point where the rate of escalation in dayrates increased significantly."

A similar increase in dayrate has been negotiated for the Atwood Falcon. The rig is currently drilling two wells in Japan at just over \$88,000 per day.

Following completion of the work in Japan, the rig will mobilize to Malaysia, where it was previously working for Shell, and will commence a new contract for Shell that includes one well from the previous contract.

The previous Shell contract provided for dayrates that ranged from \$53,000-\$83,000 depending upon water depth.



Dayrates are increasing for nearly all jackups. Atwood Oceanics' Beacon is working for \$62,000 per day under a contract negotiated in summer 2004. Dayrates for option wells, if they are exercised, will increase to \$77,000 daily.



Atwood Oceanics' Falcon will be operating under a contract with Shell that calls for six firm wells at \$93,000 per day and six option wells at \$113,000 daily.

The next Shell contract provides for a dayrate of \$93,000 per day for the six firm wells and \$113,000 per day for the six option wells.

Diamond Offshore has experienced similar rate increases. Its Ocean Rover has a future term contract in the \$180,000 area, according to **Les Van Dyke**, Director, Investor Relations for Diamond Offshore. The rig is currently operating in the low \$120,000s per day.

"The market in the region appears to be finely balanced with an upward bias on dayrates," Mr Van Dyke said.

"If there should be a real surge in demand, pricing power could increase due to the tight supply situation."

INDIA

India remains a good market, although some contractors are mobilizing units out of the country for better opportunities elsewhere.

Contractors are quick to point out that the rigs are being mobilized for opportunistic reasons and not due to any problems operating in the country.

Diamond Offshore had two jackups offshore India, both working for independent operators rather than directly for ONGC. One unit, the Ocean Sovereign, is now working in Bangladesh.

The other jackup, Ocean Heritage, was enroute to Qatar in April for a six-month contract.

The latter rig was earning \$61,000 offshore India and will be paid \$72,500 while in Qatar.

ENSCO International operates two jackups in India, one of which recently mobilized to India from Qatar.

"India is a tight market," noted Mr LeBlanc with ENSCO International.

"ONGC and others have been looking for rigs and I think they have had some difficulty in filling those requirements.

"I think historically India has not had to pay premium rates for rigs," he continued, "but I think with availability as tight as it is now that is becoming more of a reality."

Dayrates for 300 ft independent-leg cantilever jackups average from the high \$50,000s to mid \$60,000s range. ■