West Africa market could see shortage of rigs

THERE WERE ENOUGH jackups in West Africa 12-18 months ago to meet demand but that market has seen about half a dozen units depart for other areas, leaving operators who have upcoming drilling programs in dire straits.

Semisubmersibles and drillships are in extremely tight mode presently and all indications are that demand for these floaters will continue to outstrip supply.

As a result, operators will either have to postpone drilling activity or import a rig from another area, which could prove to be difficult due to a global tightness in rig availability.

Dayrates for jackups and floaters are also on the rise as a result of an extremely tight market that will likely get even tighter as the year progresses. Jackup rates are approaching the $80,000 area while drillships are commanding close to $300,000 per day.

Semisubmersibles, meantime, most of which are not ultra-deepwater units, are being contracted at rates just above the range for the large jackups.

JACKUPS IN SHORT SUPPLY

A year and a half ago, there were more than two dozen jackups working offshore West Africa. Today, the jackup fleet is down to 19 rigs due to relocations to other areas, and has appeared to settle at that level for the foreseeable future.

"It's a very good market with a lot of development projects and limited rig capacity and right now conceivably a rig shortage," said **Roger Hunt**, Senior Vice President of Marketing for **GlobalSantaFe**.

"The primary reason is that Nigeria and NNPC, the largest consumer of jackups, had difficulties supporting budgets," Mr Hunt said.

"Operators such as **ExxonMobil**, **ChevronTexaco**, **Shell** and **Total** who had drilling programs didn't get partner approval to proceed with them, so there was a cutback in activity in Nigeria and a little weakness in other areas."

Rigs that were idle as a result were mobilized to other areas but now the market is back to full employment. "On the jackup side there is no idle capacity and for all intents and purposes it is a fully employed market," Mr Hunt noted.

"Our outlook for 2005 is a shortage of rigs mid-year and lasting well into 2006," Mr Hunt said.

ODS-Petrodata also says the jackup undersupply will be acute during the second half of 2005 unless more rigs are relocated to the region. The company says demand offshore Nigeria is expected to increase significantly from mid-2005 due to additional drilling programs from several operators.

Mr Hunt noted that there are tenders outstanding for additional drilling but those operators will have to either defer the programs into 2006 and wait on a rig already there, or the rigs will have to be imported from other areas.

The question then becomes, where will the rigs come from?

There were reports that several drilling contractors were bidding jackups from the Gulf of Mexico into West Africa and other areas, but that might not be such an outstanding business decision unless a contractor wants to go long with a contract.

For example, dayrates for jackups already in West Africa are nearing $80,000 for 300 ft units. The 250 ft jackups could see rates move from the $50,000 area to something in the $70,000 area, according to Mr Hunt, due to increased demand and little supply.

GlobalSantaFe's jackup High Island V is one of the jackups working offshore West Africa. Jackups are in short supply in the region, one reason they are able to command dayrates in the $80,000s for 300 ft units. Shallower water jackups, 250-ft rigs, could see rates moving from the $50,000 area to as high as $70,000 due to increasing demand and short supply.

Drilling contracts for jackups (as well as floaters) are for one year or longer, with some of GlobalSantaFe's jackups on two-year plus contracts for development projects.

"There is a core group of operators with long-term development projects," Mr Hunt said, "and then there is exploration and appraisal work coming in behind that."

Getting back to the question of where additional capacity will come from, if a contractor is of the belief that dayrates in the US Gulf of Mexico are similar to those in West Africa, the contractor might be reluctant to make the move because the dayrate difference is nominal.

It then becomes a question of whether a drilling contractor wants to take a long-term view of the market. “If it is the geological view that West Africa is younger and earlier in the cycle than the US Gulf,” Mr Hunt explains, “one may tend to reposition his rigs.

“However, I don’t think you are going to see opportunistic mobilizations where a contractor wants to take a rig out of the Gulf and take the cost of the ship to move the rig and amortize it over a longer period.

“There will be less of that,” he concluded.

SEMISUBMERSIBLE OUTLOOK

The semisubmersible market is relatively tight for the mid-water depth units although demand is spotty with some gaps in utilization.

“There are some gaps that we can see in the visible work,” Mr Hunt said.

This is also confirmed by **ODS-Petrodata**. The company forecasts that mid-water depth semisubmersible demand will increase this year but that there will still be a surplus of marketed rigs during the year.

The company also noted that rig availability is not confined to the standard mid-water depth market but predicts that it will only be a matter of time when the sector will be fully employed worldwide, either via new contracts in West Africa of by these units mobilizing from West Africa to other regions.

The standard water depth semisubmersible market could improve from mid-year, according to ODS-Petrodata, due to drilling programs planned by several operators, some of whom have already issued rig tenders.

These short-term programs, six months or so, could provide work for most of the fleet through year-end at least.

DRILLSHIP SHORTAGE

A pending drillship shortage for deepwater and ultra-deepwater work could be felt by the third quarter, according to ODS-Petrodata, as one ship will mobilize to the North Sea.

This could create a supply/demand imbalance against several drilling programs planned for the remainder of this year and into 2006 against an insufficient number of vessels.

The ultra-deepwater drillship sector is at 100% utilization presently. As a result,

GlobalSantaFe's drillship GSF Jack Ryan, rated for 8,000 ft of water, is drilling for BP offshore Angola under a one-year contract with two six-month options. A potential shortage of drillships in the region could result in dayrates increasing from levels already in the high $200,000 area.

dayrates are hitting the high $200,000 area with rates said to be approaching $300,000 or more.

These rates could continue when the ultra-deepwater segment faces the shortage anticipated later this year.

NERVOUS OPERATORS

The unfulfilled demand for deepwater and ultra-deepwater rigs in West Africa is making some operators a bit nervous.

There are still numerous programs that have yet to be awarded but again partner approval appears to be the culprit on at least some of these projects.

Some operators were trying to get their bids supported by their partners for development programs that had been sanctioned by the partners, but they are still waiting on a suitable rig.

In one instance, Total tendered for a dynamically-positioned semisubmersible for its Akpo program offshore Nigeria.

The program was set to begin in early 2005 has yet to materialize into a firm contract.

"Total tendered for bids six months ago but near the end of the tender process, its partner, NNPC, did not give them approval to proceed so Total backed away from the deal," Mr Hunt explained.

"During that time," Mr Hunt continued, "dayrates had gone from $200,000 to $300,000 so there is a customer that is not only worried about what it will have to pay but now is also worried if it will have a rig when it needs one."