

Brazilian state oil company Petrobras goes on a shopping spree to lock in rigs

BRAZIL, AND BRAZILIAN state oil company Petrobras in particular, are known globally as leaders in deepwater and ultra-deepwater exploration and production, setting numerous deepwater exploration and production records along the way toward its goal of becoming energy self-sufficient by 2007.

While several independent oil companies are active offshore Brazil, Petrobras is by far the most active, with E&P plans totaling in the several billions of dollars over the next few years.

While Brazil is primarily known for its vast oil reserves, Petrobras is working diligently to bring several large natural gas developments on stream in an effort to convince foreign operators to search for gas as well.

As part of its plans to become energy self-sufficient, Petrobras went on a rig shopping spree, awarding new contracts and extending the contracts of essentially all of the deepwater rigs working offshore Brazil, and a couple of units that will have to be mobilized to the country.

Most of the rigs received 4-5 year contracts, which will hold Petrobras through its anticipated busiest period of increasing and maintaining production.

NEW PRODUCTION

Brazil wants to be energy self-sufficient by 2007, and believes it will reach that goal. Considering the numerous development projects scheduled to come on stream by the end of 2006, it's not an unthinkable goal of achieving an average daily production level of 1.8-2.0 million b/d. Petrobras produced about 1.7 million b/d during the first quarter of this year. A significant amount of that production is supplied by offshore fields, with the Campos Basin providing approximately 85% of total country production.

Despite large production figures from the Campos Basin, it is far from a mature area. Petrobras is planning continued development of the area with at least



Petrobras contracted the Noble Paul Wolff semisubmersible for an additional two years through December 2009. A dayrate of \$210,000 will commence in January 2007 upon upgrade of the rig to 10,000 ft water depth capability.

nine new production platforms planned through 2008.

Among the new developments is the Parque das Baleias field in the northern section of the Campos where Petrobras has made two discoveries this year, and the Jubarte and Espadarte fields.

The Jubarte field is expected to come on stream this year with initial production of around 60,000 b/d through an FPSO. Production will triple in 2008 when a second FPSO is installed in the field.

The Espadarte field is scheduled to come on stream in early 2007 via an FPSO.

This field is expected to produce 100,000 b/d of oil.

Petrobras will continue to develop the Campos Basin and then plans to develop the Espirito Santo Basin to the north and the Santo Basin to the south. However, significant development and production of these areas is not expected before 2010, meaning significant exploration programs leading up to the development.

Through 2008, Petrobras plans to bring on stream at least 14 production units, including eight in the Campos Basin, three in Espirito Santo, one each in Santo, the Manati field in the northeastern Camamu-Almada Basin, and in the Piranema field in the Sergipe Alagoas Basin. Another 11 production units are planned for beyond 2008, including nine in the Campos Basin, one in Espirito Santo and one in Santo.

Not all of Petrobras' production is oil. Petrobras wants to be able to supply 100 million cubic meters of gas per day by 2010, up from the 36 MM cubic meters per day presently.

The operator began production of 3.6 mm cubic meters per day of gas from the Peroa-Cangoa fields in Espirito Santo. Additionally, Petrobras plans to use an FPSO to initially develop the Mexilhao gas field in the Santos Basin beginning in 2007.

Production from this field is being moved up a couple of years from its original estimated start up data in 2009 to encourage the use of natural gas in the country as well as to meet projected demand when new pipelines are completed at the end of 2006. The FPSO will later be replaced with a fixed platform.

OTHER DEVELOPMENTS

While Petrobras may appear to be the only player in Brazil, there are several

foreign companies with exploration licenses and some with development plans following discoveries. And not all are in the deep and ultra-deepwater expected in Brazil.

For example, **Devon Energy** is proceeding with the development of its discovery in 300 ft of water in the Campos Basin, to be named Polvo. Three exploratory wells and two appraisal wells have been drilled on the block to date. First production from a fixed platform to an FPSO is expected in the second half of 2007.

Chevron is developing plans for its Frade field with estimated expenditures of \$1 billion. The development plan calls for the drilling of 20 wells, including seven injector wells, and to produce 90,000 b/d of oil by 2010. The field is in the prolific Campos Basin and contains an estimated 1 billion barrels of oil.

Additionally, **Shell** is considering development of reserves in the BS-4 block in the Santos Basin. A decision is expected by early 2006. Meantime, the company is already planning to drill appraisal wells in the BC-10 block in the Campos Basin beginning this September and plans to begin production of heavy crude from the block in 2009.

RIG CONTRACTS

Petrobras historically has favored long-term drilling contracts at slightly lower than peak market dayrates. However, the operator went through a period of tax restrictions that resulted in offering shorter term contracts. As those began to expire, the operator found itself in a position of potentially being caught in a deepwater market surge, and returned to their tradition of offering longer term contracts at less than peak rates, but at good rates nonetheless.

As a result, some of the contracts recently let by Petrobras carry terms that expire in 2010 and beyond, including one that is set to expire in 2013.

Deepwater and ultra-deepwater drilling activity is strong worldwide, particularly in Brazil where approximately 20% of the world's 98 rigs capable of working in greater than 3,000 ft of water are located and under contract to one operator.

Realizing that it may not have another opportunity to secure the deepwater drilling equipment it would require during the next five years, Petrobras quickly negotiated new contracts and contract extensions for 17 deepwater rigs owned



Tranocean's drillship **Deepwater Frontier** is currently working for Petrobras until February 2006. The rig then mobilizes to India for a contract with Reliance Petroleum beginning in August 2006.

by four drilling contractors. According to **ODS-Petrodata**, Petrobras currently has 21 deepwater rigs (greater than 3,000 ft water depth capability) under contracts totaling 74 rig years. The new contracts and extensions are worth well over \$3 billion to the various drilling contractors. Transocean's contracts alone are valued at nearly \$1 billion.

For example, **Pride International** signed contracts with Petrobras for its four deepwater semisubmersibles with estimated total revenues of approximately \$830 million.

The five-year contracts for the Pride Rio de Janeiro and Pride Portland include a base dayrate of \$141,750 with a 15% performance bonus potential plus mobilization amortization, for a maximum possible dayrate of approximately \$164,000. Total contract value is approximately \$600 million.

Additionally, Pride will receive approximately \$9,000 per rig per day in fees from the joint venture that owns the rigs in connection with Pride's management of the rigs. Pride expects the two rigs to begin drilling operations in October 2005. The dynamically positioned rigs are capable of drilling in up to 5,000 ft of water.

Pride also received contract extensions with Petrobras for the Pride Carlos Wal-

ter and Pride Brazil that extend two years through June 2008 at a base dayrate of \$137,000 plus a 15% performance bonus potential for a maximum possible dayrate of approximately \$157,000. The new terms commence in June 2006. Potential revenues could total \$230 million.

Diamond Offshore's contracts with Petrobras are valued at more than \$880 million, excluding potential bonuses. The contractor's deepwater semisubmersibles Ocean Alliance, Ocean Yatzy and Ocean Winner were contracted for four years each while the Ocean Clipper received a five-year contract.

Dayrates range from \$110,000 for the Ocean Winner to \$115,000 for the Ocean Yatzy and \$155,000 for the Ocean Alliance. Dayrate on the Ocean Clipper is \$180,000. Performance bonuses for each rig range from 5% for the Ocean Winner and Ocean Clipper to 17% for the Ocean Yatzy and 20% for the Ocean Alliance.

Transocean received contracts for three of its deepwater semisubmersibles and two drillships valued at an estimated \$985 million excluding revenues for mobilization, demobilization, performance bonus opportunities and client reimbursables.

The contracts for the deepwater drillships include a four-year term for the

Deepwater Navigator, which is expected to begin in October 2006 in direct continuation of the rig's current contract. Estimated revenues of \$263 million could be generated over the contract period.

The contract for the second drillship, Peregrine I, is set to begin this November following an estimated 120-day planned upgrade in a Brazilian shipyard where the rig is currently idle. The three-year contract is estimated to generate revenues totaling \$123 million.

The three semisubmersibles are the Sedco 707, Sedco 710 and Transocean Driller. The Sedco 707 is contracted for four years and is estimated to generate revenues of approximately \$263 million. The contract is scheduled to begin in January 2006 following completion of its current contract and an estimated 60-day shipyard program.

The Sedco 710's four-year contract is expected to commence in October 2006 in direct continuation of its current contract. Revenues of \$175 million are estimated. The Transocean Driller received a four-year contract with an estimated value of \$161 million. The rig will begin its new contract in August 2006 in continuation of its current charter.

Noble Drilling received contract extensions for four of its deepwater rigs in Brazil as well as a new contract for the Noble Dave Beard semisubmersible currently in a Chinese shipyard, and for the Noble Therald Martin semisubmersible currently working in the US Gulf of Mexico.

The Noble Dave Beard received a five-year contract from Petrobras at a dayrate of \$220,000 plus a 15% performance bonus, mobilization paid by Petrobras and with a 95% of operating dayrate while the rig is mobilized from China. The rig is a bare hull presently located at the **Dalian New Shipyard** in Dalian, China.

The rig will be built as a dynamically positioned unit designed to work in up to 10,000 ft of water. Noble estimates that capital expenditures on the Noble Dave Beard will be approximately \$375 million. The rig's contract will begin during 2008 and will run to 2013.

A full string of the contractor's aluminum alloy riser will be deployed on the Noble Dave Beard. Full strings of the aluminum alloy riser are already deployed on the Noble Roger Eason and Noble Leo Segerius.

The Noble Therald Martin received a four-year contract with a dayrate of \$114,000 plus potential bonus of 15%. The rig will commence operations in Brazil following a contract with Chevron and then Kerr-McGee in the US Gulf.

In addition to the new contracts, Petrobras has extended the contracts on the semisubmersible Noble Paul Wolff and the drillships Noble Roger Eason, Noble Muravlenko and Noble Leo Segerius, all of which are working offshore Brazil.



The Noble Leo Segerius' current contract extends through June 2006 at a dayrate of \$94,000 plus a 10% performance bonus. The extension carries a new dayrate of \$125,000 commencing January 1, 2006, plus a 10% performance bonus.

The existing contract for the Noble Paul Wolff extends through December 2007 at a dayrate of \$155,000 plus a 20% performance bonus. The two-year extension through December 2009 will be at a dayrate of \$210,000 and will commence upon upgrade of the rig to 10,000 ft water depth capability, estimated to occur in January 2007.

The existing contract for the Noble Roger Eason extends through April 13, 2007, at a dayrate of \$96,000. The Petrobras extension is for two years with a dayrate during the extension period of \$137,000 plus a 15% bonus. The Noble

Muravlenko's current contract extends through February 1, 2007 at a dayrate of \$81,500 plus a 10% performance bonus. The new two-year extension carries a dayrate of \$125,000 plus a 15% performance bonus.

The Noble Leo Segerius' current contract extends through June 2006 at a dayrate of \$94,000 plus a 10% performance bonus. The extension carries a new dayrate of \$125,000 commencing January 1, 2006, plus a 10% performance bonus.

In addition to spending approximately \$375 million for upgrading the Noble Dave Beard, Noble estimates it will make capital expenditures on refurbishment, upgrade and contract specific items for it other rigs operating for Petrobras.

Noble estimates it will make capital expenditures for the Noble Paul Wolff, Noble Roger Eason, Noble Muravlenko and Noble Leo Segerius of approximately \$20 million, \$10 million, \$10 million and \$10 million, respectively.

A substantial majority of the expenditures will occur in 2006. ■