

**Smaller companies making a big difference in this maturing region**

By Linda Hsieh, Associate Editor

**JUST A COUPLE** of years ago, it was routine business for operators in the North Sea market to ink a contract and begin drilling in only weeks. Now, that's become a luxury that oil companies can't find anymore. With rig utilization close to full and contracts piling up, lead times are stretching out further than ever.

"All of Noble's rigs in the North Sea are booked until early 2008. We have 100% utilization this year and next, and we expect to see tendering begin for 2008 after the summer," said **Ronald Hoop**, Noble Drilling manager of commercial affairs, based in The Netherlands. "This is significantly different than what we've seen before. Operators may not be used to it, but they have to plan their drilling sequences much earlier. They know that access to capacity is key, so they must plan ahead and plan well."

Activity level, however, hasn't risen as much as rig utilization numbers might suggest. Mr Hoop believes the overall number of wells drilled hasn't increased significantly. "Still, all available capacity is being used, and that's what's driving up the prices."

**Paul Carsten Pedersen**, senior vice president for **Maersk Contractors**, agreed: "There's been some pick-up, but activity levels aren't as high as they were in the early 1990s."

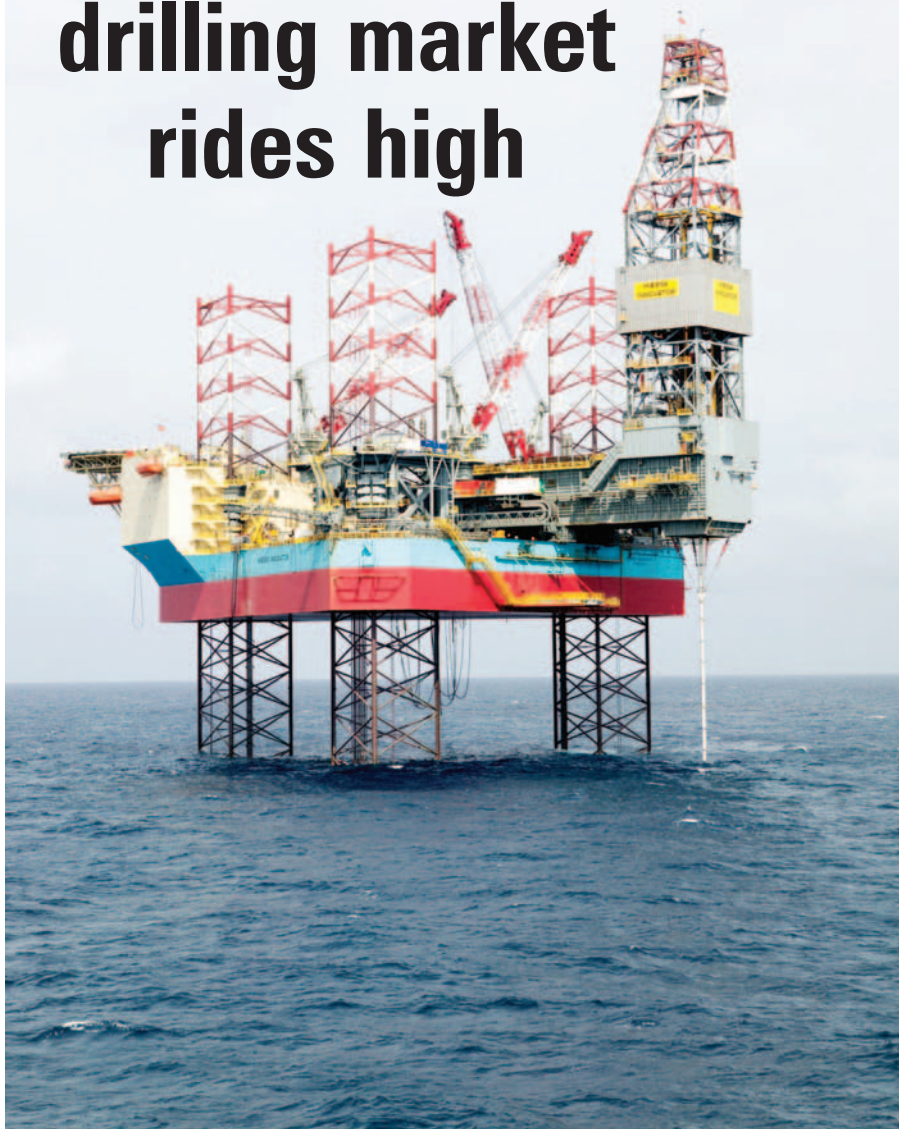
There's no doubt, however, that near-full rig utilization has rapidly boosted day-rates. Mr Hoop estimates recent day-rates to be around \$150,000 to \$220,000 for standard jackups and \$200,000 to \$300,000 for heavy-duty jackups, and \$200,000 to \$350,000 for standard semis and \$350,000 to \$400,000 for 4th-generation semis.

"Rates are still rising, but they're not far from plateauing. I think after 2008, we'll begin to see a moderation," he said.

**Mike DuBose**, operations manager for **Rowan Drilling UK**, agreed and noted that higher prices remain a fundamental supply-and-demand issue. The fact that regional governments' stringent regulations don't allow international units to

**Tight rig supply keeps rig utilization near-full**

# North Sea drilling market rides high



The Maersk Innovator, an ultra-harsh environment jackup, is currently working for ConocoPhillips on its Ekofisk field in Norway. The contract expires in 2009.

easily enter the North Sea market has only added the tightness of rig supply.

There are no indications for significant additions to the region's fleet count, Mr Hoop said. "And the reason is mainly that other markets worldwide are excellent as well."

While strong rig rates are a good thing for drilling contractors – at Noble, it's enabling \$1.2 billion in equipment investments this year – Mr Hoop said he believes the industry is approaching a

price ceiling.

"There is a limit to everything, and we are getting to that limit," he said. "At some point, projects won't be economically viable anymore. When the rate isn't viable for our customers, they'll postpone the work. As drilling contractors, we need to be careful."

So far, however, the region remains robust.

Maersk Contractors currently has 7 rigs

working in the North Sea. By the end of the year, an 8th rig will rejoin the region with a contract already in hand, according to Mr Pedersen. The Maersk Guardian, an ultra-harsh environment jackup capable of drilling in up to 350 ft of water, had previously been moved to Australia for Woodside's Ottway Project and will be mobilized back to Europe late this year.

All of Maersk's North Sea rigs are booked solid for 2007, with some booked for all of 2008 and some booked until 2010. "We've had 100% utilization for a few years. All the rigs in our fleet are very special rigs that work on special projects, so they demand good rates and get utilized," Mr Pedersen said.

The company also has 7 newbuilds under way. Four high-end, high-efficiency jackups, all capable of drilling in the North Sea, and 3 ultra-deepwater semisubmersibles for development drilling are on order. They're all being built at Keppel FELS' shipyard in Singapore. One rig will be delivered by the last quarter of 2007, 3 more will arrive in 2008, 2 in 2009 and 1 in 2010.

Although none of the newbuilds have contracts lined up yet, Mr Pedersen said, there's already "a lot of interest" in them.

"There's a strong demand for creativity in the region, and that's an advantage for us as a highly skilled contractor with very sophisticated equipment. We get the opportunity to really excel and demonstrate the capabilities we have and the value we can deliver."

For Noble, the company currently has 8 jackups and 1 semi working in the North Sea. According to Mr Hoop, the company has no plans to move any rigs into or out of the North Sea market. Mostly recently, contracts for 2 jackups – the Noble Ronald Hoop and the Noble Piet van Ede – were renewed with **Gaz de France**. Both are currently working in the Dutch sector. All of Noble's rigs in the region are now booked to at least early 2008.

Noble also is building 2 Friede & Goldman JU-2000E enhanced premium jackups, to be named the Noble Roger Lewis and the Noble Hans Deul. The rigs, scheduled for delivery in 2007 and 2008, are being built for approximately \$309.8 million in China against 2-year contracts for **Shell E&P**. "Noble does not build on speculation. That is our strategy," Mr Hoop said.

Rowan currently has 2 cantilever jack-



The Noble George Sauvageau (above) is currently working in the Netherlands for Shell. The 1-year contract began in late March 2006. Rowan's Gorilla V (left) is currently working in the North Sea for Total for rates in the mid-130s.

up rigs working in the North Sea. The Rowan Gorilla V is working for **Total** with rates in the mid-130s, and the Gorilla VII is working for **Maersk** with rates in the low-180s. Both Gorilla V and VII are Super Gorilla Class jackups capable of working in up to 400 ft of water depth year-round in the North Sea. The units are rated to 35,000 ft drilling depth.

Additionally, Rowan will be moving its Super Gorilla class jackup rig Gorilla VI from Canada to the North Sea in the 4th quarter this year. The mobilization follows the company's announcement in March that it was awarded consecutive contracts from 2 UK-based oil and gas companies. Minimum drilling revenues from these contracts are estimated at about \$127 million.

According to Mr DuBose, the company is also continuing on schedule with its newbuild program, with the third Tarzan Class unit scheduled for delivery in the 3rd quarter this year and the 4th Tarzan

Class unit delivered in 2007. It also has announced a new class of units called the 240C, which replaces Rowan's old 116C units. These new 240C units will have up to 535 ft of leg length to enable operations in up to 400 ft of water. They are designed for high-pressure, high-temperature drilling and will be capable of operating in the North Sea, he said.

## A MATURING MARKET

Despite the booming times, it remains a fact that the North Sea is a maturing area. According to Shell's latest annual report, its crude oil and natural gas liquids production in Europe last year totaled 541,000 bbl/day. That's down from 580,000 bbl/day in 2004 and from 671,000 bbl/day in 2003. **Statoil** has also reported a downward trend for production on the Norwegian continental shelf: 562,000 bbl/day in 2005, compared with 625,000 bbl in 2004 and 661,000 bbl in 2003.

With the easily accessible fields running



down and what's left much harder to reach, industry experts agree that this has been slowly changing the character of the industry.

According to Mr Pedersen, there's a much stronger focus on optimizing the use of existing infrastructure in the North Sea, especially in the UK. "This is fundamentally different from other areas, where the focus appears to be on reserves replacement."

In this kind of environment, innovation and technology have become more important than ever. Mr Hoopé said infield drilling and 3D seismic technologies have been helping operators to find small-pocket discoveries, citing more development drilling and workover and sidetrack projects.

He also noted 2 technology-enabled projects. First, there's the recent development by **Unocal Netherlands**, a **Chevron** subsidiary, on block A12, located in the Dutch sector of the North Sea. Using a new central processing platform, the field is due to be onstream by the end of 2007. Its production facilities will have a capacity of 3.69 million cu m/day.

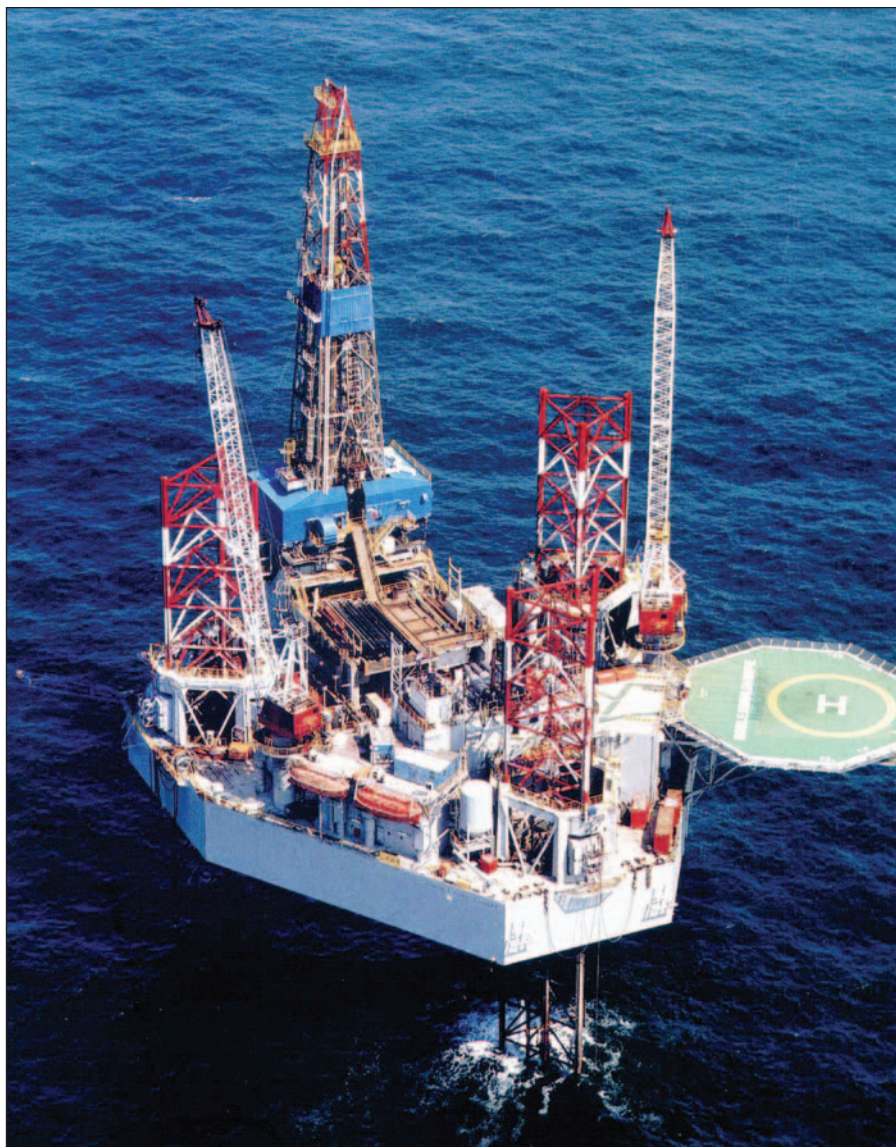
Then there's **BP's** work on the Clair Field. Discovered in 1977, the Atlantic oil-field off the Shetland Islands' west coast had a reservoir that many said was too complex to develop. But a new offshore installation there has enabled the field to produce its first oil in 2005.

"Technology is definitely helping," Mr Pedersen said. "For example, wells can be tied in from much further than before. With Maersk's big jackups, we can drill over existing platforms where previously a dedicated drilling unit had to be onboard the platform. Now we just put in the jackup and drill."

## THE INDEPENDENTS

The biggest change in the North Sea, however, has probably been the arrival of the independents. These companies may be small compared with the majors, but their impact has been big.

While oil companies are divesting assets – for example, in 2005, Shell sold the Schooner and Ketch fields in the UK and its interests in **Gasunie** – smaller producing companies have been buying up those assets and creating a profitable niche for themselves. Over the past 5 to 7 years, dozens of smaller oil companies, such as **Talisman**, **Venture Production**, **ATP**, **Gaz de France** and **RWE**, have arrived.



The Noble Ronald Hoopé is currently working in the Dutch sector of the North Sea for Gaz de France. The contract was set to expire in December 2006 and has recently been renewed for another year.

"While the majors have shifted their investments to overseas sectors such as Africa, the independents have been able to carve out some very interesting projects in the North Sea," Mr Pedersen said.

**Apache Corporation** is a great example, Mr DuBose said. "They purchased the Forties Field from BP in 2003 and have made the necessary investments in the infrastructure and through the drill bit. They have increased production from about 45,000 bbl/day to over 65,000 bbl/day," he said.

The North Sea also has presented "a great opportunity for some very talented personnel to try their hand in the oil and gas business. The independents are making their mark here because they are constantly challenging the status quo. "That is the way we have always done

it' does not necessarily ring true," Mr DuBose said.

Independents' activities are also reflected in revenues, Mr Hoopé said. "The majors are slowly leaving the North Sea by gradually divesting smaller assets. The independents are aggressive and growing. They can act quickly, and they can play the market. For Noble, 10 to 15 years ago, more or less all of our revenues were from the majors. Today I would say it's 60% from the independents and 40% from the majors."

Even in Norway, which has historically been a limited market with a few key players, independents have been paving a path inward.

"It's slowly starting to change," Mr Hoopé said. "The Norwegian sector is somewhat harder to get into because the costs are

## Effective rig utilization stays at 100%

According to Dr **Nina Samsudin**, offshore rig market analyst for Northwest Europe at **ODS Petrodata**, effective utilization for jackups in the North Sea region hasn't strayed below 94% in the past year. On 1 June 2005, the rate stood at 98.82%. A year later, as of 1 June 2006, the utilization rate was 100%, unchanged from the 1 May 2006. Rig supply was at 32 jackups, and demand was at 31.5. This compares with a supply of 31 jackups and a demand of 30.63 a year ago.

Dayrates also have been going strong. ODS Petrodata numbers indicate the average dayrate for heavy-duty jackups was \$277,125 on 1 May 2006, the latest figure available. That's up from an average of \$135,000 about a year ago.

For standard jackups too, dayrates have strengthened from an average of \$77,429 on 1 June 2005 to \$174,500 as of 1 May 2006, although that is down from a high of \$192,500 on 1 April 2006.

On the semisubmersible side, effective utilization over the past year was lowest at 95.78%. As of 1 June 2006, the utilization rate stood at 97.63%, with a supply of 44 semis and a demand of 37.75. That compares with a 99.15% effective utilization rate and a supply of 42 semis and a demand of 34.97 a year ago.

Average dayrates for UK standard semis was at \$350,000 as of 1 May 2006. That compares with \$160,000 from 1 June 2005. For UK semis with 15,000 psi BOP, dayrates averaged \$365,000 as of 1 May 2006, compared with \$231,667 from 1 June 2005.

Norway semis with 15,000 psi BOP averaged \$335,000 as of 1 May 2006, compared with \$239,167 from 1 June 2005.

Also according to ODS Petrodata, dayrates for North Sea contracts inked in May 2006 topped out at \$420,000 for a harsh-environment standard semi, signaling that the market remains robust. ■

much higher and the regulations are more strict. You need to be brave to go in there. So it's a slow process, but independents are going in."

### GOVERNMENT REGULATIONS

In recent years, governments in the region have done a mixed job of promoting the oil and gas industry in what many perceive to be an aging market.

"There is no question that the Promote License program has highlighted the North Sea potential for the small independents," Mr DuBose said. Other tax relief or programs such the Fallow Initiative also have helped.

However, 2 notable tax increases have incited outrage among E&P companies. In 2002, UK Chancellor of the Exchequer **Gordon Brown** imposed a 10% supplementary tax on oil companies. Then in late 2005, Mr Brown doubled that tax to 20%. Blaming high oil prices for UK economic growth slumping to a 12-year low, he said the increase was necessary to meet the nation's spending plans.

**Malcolm Webb**, head of the UK Offshore Operators Association, was quoted at the time as saying, "It is almost beyond comprehension that the government has failed to grasp the industry's vulnerability."

In the short term, Mr Hoope said, he hasn't seen any effects from the newest tax increase "because the market is so good and the oil prices are so high. But in the long term, it will have an effect because operators are better off investing the same amount of money in West Africa or elsewhere."

Responding to comments that the original 10% increase in 2002 has had only marginal negative impact on drilling activities, Mr Hoope said, "It's marginal only if you call 10% to 15% less activity marginal."

Mr DuBose pointed out that implementing "an overnight tax increase is probably not going to inspire a lot of confidence on behalf of the operators. It could take an extra \$6.5 billion out of the industry over the next 3 years. This is money we should

be spending on offshore E&P. Our only hope is that if oil prices should fade in the future, the chancellor will review this tax with a view to repeal it."

On another front, Mr Pedersen would like to see European governments "make sure that young people are well-educated and that the oil and drilling service industries are recognized for their major contributions to society. There needs to be a continuous drive on training and education so younger people will see the industry as an attractive one to work in."

### THE FUTURE

Despite tax and regulatory barriers, the future still looks bright for the North Sea.

The Barents Sea, part of the Arctic Ocean located north of Norway and Russia with an important fishing market for both countries, remains an underexplored area.

"Only 65 wells have been drilled there so far," Mr Hoope said. "We've seen a slow increase in activities, but it's dampened by the strict requirements for equipment."

Mr DuBose agreed that the Barents Sea holds "tremendous potential. I only hope that as an industry we show the world that we are capable of developing (environmentally sensitive areas) in a respectable manner."

Another field with strong exploration potential is the Buzzard Field, Mr DuBose said. It is located in the central North Sea, about 100km northeast of Aberdeen. It was discovered in 2001 by **Pan Canadian** after more than 20 years of exploration and has a potential yield of at least 400 million bbl.

"The central North Sea is the hot area at the moment for jackups," he continued. "Those drilling programs are made up primarily off high-pressure, high-temperature gas wells that take much longer to drill than a conventional prospect. And the West of Shetland still holds great promise for semis."

Regardless of exploration results, Mr Pedersen said, the North Sea remains a hallmark for how government and industry can collaborate and will spearhead technological improvements.

"The region is politically stable and has an excellent infrastructure," Mr Hoope said. "It's a strong, competent and safe industry and will continue to lead the pack on safety and regulations." ■