DRILLING CONTRACTOR

DRILLING AHEAD

Rebirth of deep-drilling, long-stacked Phoenix a sign of the times?

Mike Killalea, Editor & Publisher

LIKE THE FABLED Phoenix rising from the ashes, long-stacked drilling rigs are returning to work—some after an absence of nearly 2 decades. From both financial and sentimental aspects, it is gratifying to see some of these old warhorses returned from pasture.

A GIANT OF A RIG

Grey Wolf has fielded what is arguably the most striking of these. Its 4,000-hp, 2.5-million-lb Rig 558, probably the largest oil-and-gas drilling rig in the world, is being dusted off for a 2-year contract in the Rockies for **Burlington Resources** in the Madden Deep Unit of Wyoming's Wind River Basin. Grey Wolf estimates that work on the $11.6 million contract will begin in the 2nd quarter of 2001.

The enormous land rig was originally fielded at the turn of the '80s by Shreveport-based **Murco Drilling**, which was ultimately absorbed by Grey Wolf. The rig has been stacked lo these many years.

But there aren't many more mothballed Rig 558s. I know some seasoned and wily contractors, entrepreneurial to the bone, that still manage to field resurrected rigs, born anew of parts and gear found God knows where. But for the most part, scarcity is the watchword in today's tight rig market.

TO BUILD OR NOT TO BUILD

And as prices for commodities continue at record levels, particularly for North American natural gas, and rig demand grows in response, familiar questions confront the industry. When—or will—a new rig-building cycle begin, and, if so, can the industry field the people to run them?

Dain Rauscher Wessels analyst **James Wicklund**, while expecting dayrates to continue upward for land contractors, doubts that rates will hit replacement levels within the next 12 months. "We do think," he added, "that dayrates will continue to move up."

Raymond James is far more bullish. "Given our optimistic pricing outlook for both oil and natural gas over the next several years, we are convinced that it will take substantially more rigs drilling to meet the world's needs for oil and gas," Raymond James analysts conclude.

They reason that rising rig demand, coupled with the impact of continuing consolidation, will dramatically improve dayrates over the next 6-12 months.

2X RIGS IN 5 YEARS?

"As we move into 2001, we expect rig newbuilds will begin to offset fleet attrition," they write. "More importantly, the size of the US rig fleet will likely need to double over the next 5 years, if the US is to come close to meeting new gas demand for power."

Still, to even the most casual observer, it should be no surprise that conditions are improving once again for the long-suffering drilling-contracting industry. **Global Marine's** latest SCORE (Summary of Current Offshore Rig Economics), released in mid-September, put some numbers to anecdote. The August SCORE enjoyed the largest increase in nearly 8 years, Global Marine reported, up 6.6% worldwide from the previous month.

SCORE

The fly in the ointment is that, despite the stellar month-to-month improvement, overall SCOREs are below levels of 5 years past—some starkly so. SCORE compares the profitability of current dayrates for offshore rigs to that of the halcyon years 1980-81, when speculative rig building was rife.

Every offshore market enjoyed increases, a key positive phenomenon in the highly migratory offshore drilling business. History teaches that existence of a single strong offshore market for a given rig type will draw magnet-like MODUs from markets faring less well. This inevitably leads to decline in the lone solid market.

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CAPITAL WIRELINES

IADC helps shape a workable UK Customs rule change for the OCS

Brian T Petty, Senior Vice President-Government Affairs

UK CUSTOMS (LONDON)—Approximately two years ago **UK Customs** announced that there would be changes to the IPR (Inward Process Relief) customs system which is currently in use for the UK Continental Shelf. An abbreviated IPR procedure has allowed drilling contractors for almost 30 years to receive goods free of duty, hold them in approved locations, and then ship them to the UK Continental Shelf (outside territorial waters) without having to complete full export paperwork. Proof of shipping was covered by a weekly docket to Customs proving shipment, and a simple copy of the manifest showing vessel details was acceptable. The reason for the change is that under EU law this system is now deemed illegal.

What UK Customs originally proposed was that IADC members operating in the UK must use the full IPR procedure. This procedure would have meant that everything shipped to the UK Continental Shelf would have to be officially "exported". It was then brought to the Government's attention that to do this was so cumbersome that in Aberdeen, where many vessels are loaded and shipped to the shelf each week, there would be gridlock. This would result in equipment not getting to the rigs in time, and therefore operations would come to a standstill. Earlier this year the UK Offshore Operators Association (UKOOA) proposed to put a team together to work alongside Customs to ensure that changes made, although necessary, would be workable for everyone concerned. **Fiona Haley** of **Transocean Sedco Forex** in Aberdeen volunteered to represent IADC in the UKOOA Customs work group.

"The system settled in the UK could influence other EU coastal Member States' customs regimes....If so, IADC's experience and advice will add greatly to facilitating a smooth transition.... "

Various procedures were looked at but the one being chiefly emphasized is the End Use Procedure. This procedure is primarily for goods being shipped to locations within UK territorial waters. Along with Customs, IADC is working to extend this procedure to replace the IPR system.

What this would mean is that companies must apply for a new customs authorization. They would have had to do this in any case since the IPR authorization will not exist after the end of the year.

Due to lack of manpower within Customs, the outcome will likely be a procedure which will work as easily as the current one but in some ways will be even more flexible. IADC is working on putting together all the new information for contractors in such a way that it is easily understood, unlike the previous regulations. As the process has evolved, IADC has regularly asked Customs for clarification of statements which might be misinterpreted.

Customs put its End Use public notice into print in October. IADC hopes to circulate its information later in the Fall so that companies have an easy-to-follow guide telling them exactly what they need to do to continue to work duty free and in a manner that ensures that goods can move in and out of UK Customs jurisdiction easily.

The system settled in the UK could influence other EU coastal Member States' customs regimes insofar as offshore E&P activities are concerned. If so, IADC's experience and advice will add greatly to facilitating a smooth transition to comply with the EU Customs Directive throughout the EU offshore. ■

This time, West Africa is the leader in the SCORE sweepstakes. That market rose a stratospheric 9.4% from July to 38.9%. This is 32% above that of August '99, and 1.4% below that of 5 years ago. The Gulf of Mexico, not surprisingly, also strengthened. SCORE there is up 7.2% to 38.4 % from July. This is a respectable 74.2% above last year's levels and a rare case in which the August SCORE ranks above its value of 5 years ago—by 3.2%.

The long-lackluster North Sea also demonstrated impressive improvement. It's August SCORE of 24.6, while low, is up 5.5% from July and represents a 16.5% increase over the last year. Still, it is down 53.9% for the 5-year period.

There is also anecdotal evidence of a recovery in European drilling. In October, for example, **Smedvig's** deepwater drillship West Navion announced two contracts for exploratory drilling. The first was a letter of intent from **Conoco (UK) Ltd** for drilling two wells west of Shetland and Scotland. The US$ 25-33 million contract would, at 1,920 m (6,310 ft) water depth, set a European record, Smedvig says. The estimated drilling period is 120-160 days.

Smedvig also announced a letter of award from **Enterprise Energy Ireland**. Enterprise issued a one-well contract in 1,600 m (5,260 ft) of water west of Ireland on the Errigal prospect. Estimated contract value is about US$ 12 million. Smedvig estimates a 60-day drilling period. Start-up of drilling operations is scheduled between March and August 2001, depending on the timing of the completion of a contract for **Badr Petroleum Co** in the eastern Mediterranean. The contract with Bapetco, a joint venture with **Shell Egypt** and the **Egyptian General Petroleum Corp**, calls for 2 wells with an option for a third. Smedvig estimates 60 days to drill the first 2 wells.

Only Southeast Asia failed to enjoy significant improvement. That region's August SCORE stands at 32.6%, a flat 0.4% above its level from the previous month. While 6.9% above its August 1999 SCORE, this month's rank remains 18.6% below its level 5 years ago.

The SCORE for jackups rose 6.3% from July 2000, closely mirroring the overall trend. At 41.5%, the SCORE for jackups stands at 80.6% above its level in August 1999. However, it is also 4.2% below where it was 5 years ago. For semisubmersibles the Global Marine-organized benchmark stands at 24.6. This is 10.8% above July, but 7.3% above its year-ago value, and 44.6% lower than 5 years ago. ■