

# Small oil spill off Brazil widens the bigger picture

**Chevron's footprint in Brazil is expected to grow despite \$28m environmental fine and upcoming inquiries**



Barry Parker — New York

A HIGH profile hydrocarbon spill involving Chevron and a Transocean rig, at a water depth of 3,700 ft, has rekindled memories of the Deepwater Horizon debacle 18 months ago.

The latest incident happened at a development well in the Chevron-operated Frade field in Brazil's Campos Basin. Despite newspaper headlines, however, while the flow rate from BP's Macondo well in the US Gulf of Mexico had been estimated at 3,000 barrels per day, amounting to nearly 5m barrels, the Campos Basin seepage — the result of a crack in undersea rocks — was estimated by Brazilian authorities to have seen a discharge of between 5,000 to 8,000 barrels in total, over a two-week period.

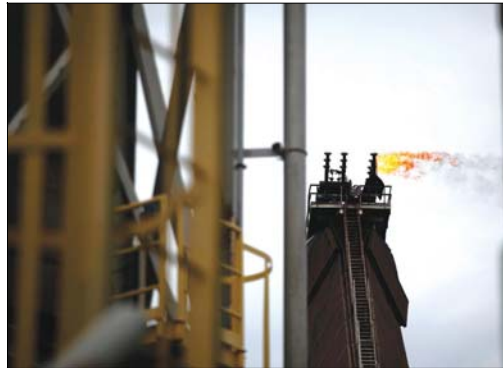
Chevron was fined some \$28m by Brazil's environmental regulator.

Brazil is not a core area for Chevron. On a webcast arranged by Morgan Stanley, Chevron's vice-president for global exploration, Bobby Ryan, said: "We typically target 60%-65% of our [exploration] investment into three focus areas." These are the Gulf of Mexico (where Mr Ryan characterised Chevron as increasing its pace, post-drilling moratorium), West Africa (with liquefied natural gas exports from Angola starting in 2012), and northwestern Australia (where Chevron is now beginning construction on the Wheatstone LNG project).

Chevron's 2010 data showed production of 24,000 barrels oil equivalent per day in Brazil, less than 1% of its 2.8m boe per day overall. A late November Chevron press release had put Frade net oil production at 36,000 barrels per day. A late November Chevron press release had put Frade oil production at 36,000 barrels per day, prior to Chevron's voluntary

suspension of development drilling at the well — which did not impact ongoing production. The field's oil is processed and stored through the Chevron-owned floating production, storage and offloading vessel *Frade*, a very large crude carrier formerly named *Lu San*, converted at Drydocks World and operated by SBM Offshore. The turret moored FPSO, completed in 2009, has a crude oil storage capacity of 1.5m barrels.

Chevron's drilling of additional wells at Frade has been undertaken with the Transocean-owned generation 2 semi-submersible Sedco 706. In the oil company's version of events, on November 7, a high pressure surge, or "kick", emanating approximately 1,000 m below the sea bed, was felt. That activated the blowout preventers at water depth of 1,200 m. The drilling casing has remained intact, but a small crack in the line resulted in small oil seepages escaping through fissures on the sea floor detected by a remotely operated vehicle on November 9, a day after reports of the first sheen on the water. Four days later, heavy drill mud was applied to kill the well. By November 16, Chevron was pumping in cement to plug the well. A late November posting from Brazil's ANP, the agency managing offshore drilling, said that the sheen, moving away from the coast, continued to be reduced. Upcoming



Brazil's Campos Basin is not a core area for Chevron.

Bloomberg



The leak was estimated by Brazilian authorities to have discharged between 5,000 to 8,000 barrels in total, over a two-week period.

Shutterstock

**Upcoming inquiries will focus on whether Chevron could have better managed issues of reservoir pressure**

inquiries will focus on whether Chevron could have better managed issues of reservoir pressure.

Transocean, the industry's largest owner of deepsea oil rigs, was caught in the crossfire following the leak at Frade. After the announcement of the leak, Transocean shares were battered by investors, falling from their late October levels around \$60

per share down to levels below \$45, against the backdrop of a choppy overall equity market and an additional share issue. The rumour mill included whispers that Transocean, with 10 of its deepsea floating rigs working in Brazilian waters, could be banned from Brazilian drilling by local authorities in the Rio de Janeiro state.

A Morgan Stanley report, referring to Transocean's stock market symbol "RIG", said that "we very much remain of the view that RIG is in the clear and speculation on RIG's culpability in the spill is unfounded". A second report hinted at an unlikely possibility of Chevron declaring force majeure and cancel its contract, booked at a \$311,000 dayrate, on the Sedco 706.

Transocean units working offshore Brazil include two drillships; *Deepwater Discovery*, on to Devon at \$453,000 per day, and *Petrobras 10000*, on contract to Petrobras at \$436,000 per day, with eight years remaining. There is also one Generation-5 semi-submersible, *Cajun Express*, with an approximate dayrate of \$510,000 from Petrobras. All three vessels have ultra-deepwater capabilities. Based on a host of factors, including expected earnings and equipment asset values, Morgan Stanley had placed a price target of \$70 on Transocean's stock price.

Chevron's footprint in Brazil is expected to grow. Start-up is anticipated in 2013 for the Papa-Terra project, in the Campos Basin, which is expected to begin its production of heavy crude in 2013. At Papa-Terra, operated by Petrobras, with Chevron having a 37.5% stake, oil will flow through the P-61 tension leg platform to be built, installed and operated initially by Floatec — a joint venture of Keppel and J. Ray McDermott — into the P-63 FPSO.

P-63 is the conversion at Cosco Dalian of the mid-1980s built, single-hulled ultra large crude carrier *BW Nisa* being put in place initially by BW Offshore and local partners the QUIP Consortium.

Another contractor, the Houston-based engineering giant Amec, is co-ordinating the fabrication and installation of the topsides portion at the QUIP consortium's Rio Grande yard. The 16 topsides modules will handle tasks including power generation, oil processing, water treatment and re-injection, and flaring. According to Chevron: "The single-phase development project involves an FPSO and a tension leg well platform with a planned total daily capacity of 140,000 barrels of crude oil."

Ownership of both P-61 and P-63 will shift to Petrobras, after three years, under build, operate, transfer contracts.

The Frade spill response, according to Chevron, saw up to 18 support craft deployed, on a rotating basis, for well

**After the announcement of the leak, Transocean shares were battered by investors**

plugging and removal of the sheen from the water. The leaking well is post-salt, ie above the salt layers.

Nevertheless, concerns have been expressed that reactions to the recent spill from environmental groups and other government agencies seeking to levy fines might slow the frenetic pace of exploration in Brazil, mainly in the pre-salt. ■

www.lloydslist.com/offshore

## Challenges face service providers in Brazilian market

BRAZIL has been branded a "tough market" for global offshore operators by US offshore support vessel owner Tidewater, writes Barry Parker in New York.

Chief operating officer Jeff Platt told an audience at its third quarter earnings statement that Brazil is a "very difficult place" with respect to labour costs, which are high, and the tax regime, which is challenging.

It was easy to make revenue, but hard to make profits in Brazil, he said.

Typically, "local content" considerations require that crew be comprised mainly of Brazilian nationals, even on foreign flag vessels working offshore Brazil.

Long term planning in Brazil is challenging for foreign companies. Tidewater president and chief executive Dean Taylor chimed in with his colleague, concerning the impact of rising costs in Brazil. "In the last year or so we have not signed up many vessels to reconsider long-term contracts or, I should say, long-term contracts that what we consider to be

marginal rates. We have lost some bids because we did bid high.

"We have not locked ourselves into long-term contracts in Brazil at rates that we think a couple years from now are not going to look very good. So we've been very careful in that respect."

Yet that has not stopped international companies from piling into the fast-growing Brazilian market. A major order for two sophisticated pipe-laying vessels was announced last week for a pair of vessels with a "high pipeline tension" capacity of 550 tonnes.

A joint venture between Technip, one of the leading specialists in pipeline and processing projects, and Brazilian infrastructure behemoth Odebrecht, has been tapped by Petrobras to operate the two vessels under five-year contracts, with further options.

The vessels, expected to be delivered from Daewoo in mid-2014, will be used in installation of risers, flowlines and umbilical control lines that tie floating production, storage and offloading

vessels far offshore to underwater wells. A news release said that the vessels could be used in waters with depths up to 2,500 ft.

Aker Solutions has experienced difficulties in Brazil providing subsea production systems for both oil and gas to Petrobras. A high profile mis-step led to a Nkr500m (\$89m) charge, pretext, for the third quarter of 2011. The company had warned investors in early October that re-work and delays in Brazil would put a damper on results. The company attributed its difficulties to "prolonged execution time and various measures initiated to improve quality and delivery times".

In October, shortly after changing management of the Brazil activities, the company's executive chairman had pointed to problems integrating a local manufacturing facility, at Curitiba.

Execution risk and knowledge of the local landscape looms heavily on the minds of sector entrants. In announcing

the pipe layer project, Brazilian stalwart Odebrecht was very quick to mention its relationship with Daewoo, where it has two drillships on order. Odebrecht also charters two Daewoo-built drillships to Petrobras, the *Norbe VIII* deployed in the Santos Basin at field BM-S-9, in an appraisal area of the Lula field and *Norbe IX*.

In mid-November, as *Norbe IX* began operations for Petrobras in the Campos Basin on a 10-year charter, the company's \$1.5bn of related asset backed bonds received a huge vote of confidence from financial rating agency Fitch, which affirmed a previously granted investment grade rating of BBB on the structured finance debt.

In its announcement, Fitch pointed out that both drillships had begun operations prior to their charter party deadlines, but alluded to operational hiccups at the outset of charters for drillships.

"As expected for newly built vessels, uptime performance for the first few

months of operation has been below the long-term average expected uptime level of 95%," it said. "The operator's expectation is that these vessels will average uptime above 90% within their first year of operations."

Two additional drillships, which Odebrecht will own jointly with the Brazilian energy services group Delba, are set for first quarter 2012 delivery, also from Daewoo. Both will enter into 10-year charters with Petrobras.

When describing the Technip deal, Odebrecht expressed a view that its involvement with Daewoo "will provide significant potential to leverage synergies in the management and operation of the vessels and mitigate risks during project execution".

It also cited the benefits of its relationship with Technip — which will continue through a jointly owned management company during the five-year operational phase, out through 2019. ■

www.lloydslist.com/offshore