

# Offshore drilling back in spotlight

**Legislation for drilling off Virginia coast and lease sales in Gulf of Mexico are among items on US agenda**



BARRY PARKER — NEW YORK

A PERFECT storm of corporate earnings reports, the first debates of the upcoming presidential campaign and high gas prices have again put offshore drilling in the spotlight.

A major volley was shot by the Republicans — the party favouring “drill, baby, drill” policies — who passed legislation that would overturn the present moratorium, set to run through to 2017, on drilling off the coast of Virginia, in the Atlantic.

Such legislation faces a tortuous path:



Shell has pushed back its plans for drilling in the Beaufort Sea to summer 2012. *Bloomberg*

it must also be approved by the Democratic-controlled Senate, a less likely prospect.

The loud thrashing in Virginia offers more symbolism than the sought-after

path to energy independence in the US; recent estimates have acreage offshore Virginia providing 130m barrels of oil and 1.1trn cu ft of natural gas — hardly a mega field.

Included within The Restarting American Offshore Leasing Act Now, designated as HR 1230, are three lease sales in the Gulf of Mexico: one in the “central” area south of Louisiana; one in the “western” area towards Texas, with 2011 time frames; and another in the “central” Gulf of Mexico.

Another provision would also open bids for tracts offshore Virginia.

Prior to the Macondo spill and the subsequent reorganisation of the old Minerals Management Service into its present incarnation, a leasing round was held in the western Gulf of Mexico in August 2009 and in the central Gulf of Mexico in March 2010.

Sales of scheduled western Gulf of Mexico leases had been cancelled in August 2010, followed by the cancellation of another central Gulf of Mexico round.

Fresh offshore leasing rounds are being contemplated, though not fast enough for the multiple sponsors of HR 1230.

The Bureau of Ocean Energy Research and Management has posted draft environmental impact statements, the first of many precursors for two possible

bidding rounds to be held in 2012. Leases were last conducted for rights to drill in waters north of Alaska in early 2008, when Shell paid \$2.1bn for rights to drill in the tracts in the Chukchi Sea.

Numerous wrangles with environmentalists have the US Department of the Interior continuing to fine-tune a court-ordered revised environmental impact statement regarding the 2008 sale.

In the meantime, Shell has pushed back its plans for drilling in the adjacent Beaufort Sea — obtained in a lease round held in 2005 — from summer 2011 to summer 2012, due to difficulties in securing all of the requisite three dozen permits.

A vexing hiccup concerned a permit for allowed nitrogen emissions from its drillship *Kulluk* that had been slated to perform on the Beaufort project along with the Arctic-classed *Noble Discoverer*, ex-*Frontier Discoverer*, now reported to be drilling for gas in waters off New Zealand at a dayrate of \$155,000 on a contract running through to late 2011. ■

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## Analysts back Transocean despite weak results

IN SPITE of weaker-than-expected results just announced for its first quarter 2011, analysts at Dahlman Rose still maintain a “buy” recommendation on the big behemoth, Transocean, citing a lower valuation multiple in comparison to peer companies, writes *Barry Parker*.

In late-April 2010, a US Coast Guard report asserted lapses by Transocean played a partial role in contributing to the Deepwater Horizon disaster.

In explaining the lower ratio of enterprise value (debt plus stock market’s valuation of the equity) to earnings before interest, tax, depreciation and amortisation (a measure of cash flow), the DR analysts point to perceptions of Transocean’s potential liability in the accident and the resultant spill — even though the driller has strongly refuted the report’s findings and has disclaimed liabilities.

Transocean’s ratio, of 7.2 times, is lower than DR’s computation of a group average of 8.2 times, for a group of 12 offshore drillers’ estimated results in 2011.

At the high end of the scale, EnSCO, Pride International and Rowan were valued at ratios above 10 times.

In recent conference calls, the analysts and industry executives have offered a rosy outlook on the deep and ultra-deep sectors, with special attention to Petrobras and the continued uncertainties concerning its plans to build deepwater rigs in Brazil and its on again, off again plans for chartering units.

Credit Suisse analysts wrote: “It appears Petrobras could contract three ultra-deepwater rigs near term under the 3,000-m market inquiry and an additional two deepwater rigs this summer.”

Transocean marketing executive Terry Bonno waxed lyrical about the market for the ultra-deepwater rigs, describing tendering activity as “brisk” and adding:

“Previously available ultra-deepwater units have been snatched up by customers who are anxiously securing capacity for the upcoming programmes.

“The rush to contract available fleet has been nurtured by the stable and now rising commodity price, coupled with Petrobras’ urgency to fulfil its immediate needs.”

Ms Bonno also said Transocean was close to finalising a deal on its Generation 5 semi-submersible rig *Sedco Energy*, finishing up shipyard work at Las Palmas during the summer.

She explained tendering activity for deepwater rigs had been “light”, but was

**“The rush to contract available fleet has been nurtured by the stable and now rising commodity price, coupled with Petrobras’ urgency to fulfil its immediate needs”**

*Terry Bonno, Transocean marketing executive*

quick to add: “The lack of available ultra-deepwater units should improve the deepwater market going forward.”

The mid-water sector has seen positive news. Veteran analyst Scott Burk, now at Canaccord Genuity, offered the following critique of Ms Bonno’s portion of the Transocean call: “Most significantly — and a different tone than we’ve heard in other calls — was the positive sentiment toward mid-water rigs.

“Transocean signed two idle, not stacked, rigs: the 2,800 ft *Sedco 135* to a five-month contract at \$264,000 per day in Nigeria and the 1,500 ft *Sedco 701* to a one-well contract in Gabon at \$210,000 per day.” ■

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Transocean is close to finalising a deal on its Generation 5 semi-submersible rig *Sedco Energy*.

## Rig owner pledges to stay in jack-up market

TRANSOCEAN is considering disposals of non-strategic assets, writes *Barry Parker*.

The rig owner took a huge \$1bn “impairment” charge in the fourth quarter of 2010 on its fleet of standard jack-ups. In the first quarter of 2011, Transocean booked a big gain of \$176m on the sale of Trident XX, a jack-up rig operating in the Caspian Sea, to London-listed Eurasia Drilling. The rig continues on a contract to Petronas, at a dayrate of \$185,000, through 2012.

In questions following the prepared presentations, Morgan Stanley’s Ole Slorer — who also covers dry bulk and tanker shipping — probed Transocean management about possible plans for spinning off older lower-end units, so the company could focus on the higher end of the market.

In response to Mr Slorer’s question, where he mentioned Transocean’s 2004-2005 spin-off of Todco — an operator of shallow-water rigs — to shareholders, president and chief executive Steve Newman revealed the Transocean strategy.

He stated: “We might consider disposing the package of low-spec assets similar to the deal we did with Todco. But

the end result of that deal would not be to get us out of the jack-up market. I intend to stay in the jack-up market and remain competitive. That’s why we’ve got the three newbuilding construction projects going on today.”

Mr Newman was referring to two high-specification jack-ups, worth approximately \$246m each, ordered from Keppel Fels in early February, with 2013 delivery — and one additional unit, already under construction, purchased in late 2010, for \$195m from the Sembcorp PPL Shipyard.

This rig, slated for late-2011 delivery, is a Pacific Class 400 — an enhanced version of the Baker Marine-designed Pacific Class 375. Atwood Oceanics has three similar jack-ups on order for 2012-2013 deliveries, ordered at around \$190m.

Transocean is not the only driller taking questions about spin-offs. Dan Rabun, chief executive of EnSCO, responded to similar questions, describing plans for selling off units as “evolutionary and not revolutionary”.

He added: “We continue to look for some opportunities to call some assets at the low end. So it’s not going to be anything dramatic.” ■

## Norway grants 24 production licences in Arctic region

THE Norwegian Petroleum Directorate has announced awards in its licensing round, where bids concluded last November, writes *Barry Parker*.

According to the NPD, 12 new production licences were awarded in the Norwegian Sea and 12 granted in the Barents Sea. Statoil would be the operator in eight of the 24 awards.

Norway’s Minister of Petroleum and Energy, Ola Borten Moe, talked positively about the movement of exploration activity into the Barents Sea, where discoveries have been made at Goliat (under development by ENI) and now at Skrugard, where Statoil, drilling with the Transocean-owned semi-submersible *Polar Pioneer*, announced a major oil find last month.

As the Skrugard discovery — about 100 km north of the Statoil-operated Snohvit gas field — was being announced, the Norwegian business press was reporting US diplomats were showing an interest in exploration of the Barents region. Several of the newly-awarded Barents licences are adjacent to Skrugard.

Another Norwegian driller, North Energy — part of a Total-led syndicate using Seadrill’s semi-submersible *West Phoenix* for drilling the first of three prospects in the Barents Sea — has started drilling at Norvarg, also near Statoil’s big find. North Energy was the recipient of one licence in the recent awards, in a block south of Lofoten, to be operated by Wintershall.

The NPD has indicated it plans to open further some eastern parts of the southern Barents Sea under an integrated management plan, following last year’s agreement between Norway and Russia on delineation of their border.

NPD’s plans confirm analysts’ expectations that the resolution of the decades-old dispute about sovereignty on the nations’ continental shelf will fuel renewed interest in exploration in the Barents Sea.

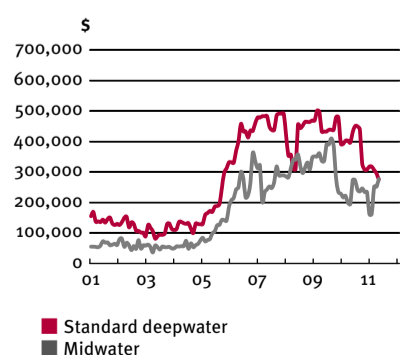
As the diplomatic deal opens up new possibilities for exploration, there were hints the Americans’ interest was further fuelled by the Norwegian government delaying environmental assessments in the Lofoten region, in the Norwegian Sea. Environmental studies, necessary before any licensing rounds, have been postponed until 2013.

Certain oil and gas prospects in the Barents Sea may be straddling the newly-drawn border. One template for possible co-operation between Norway and Russia is the Shtokman gas project.

Gazpro, a 51% holder in a company formed to produce the gas, gains valuable technical expertise through teaming with Total (25%) and Statoil (24%) to exploit the extremely large but geographically-remote field in the Russian Arctic, roughly 700 km northeast of Murmansk. ■

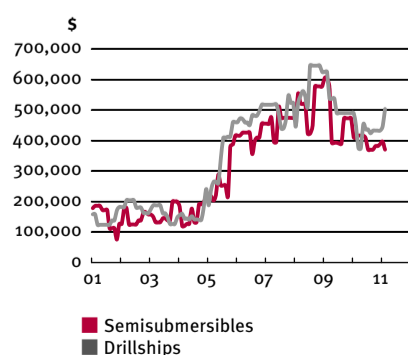
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**STANDARD AND MIDWATER DAYRATES**  
Worldwide, 2001 to 2011



Source: ODS Petrodata

**ULTRA DEEPWATER DAYRATES**  
Worldwide, 2001 to 2011



Source: ODS Petrodata