Deepwater Horizon: the aftermath

Moex's Macondo payment offers hope for Anadarko investors

Fears of company being wiped out by a huge financial liability begin to recede

BARRY PARKER — NEW YORK

Cleaning up operations: BP last year estimated the overall cost of the Deepwater Horizon spill at around $40bn. *Bloomberg*

AN IMPORTANT breakthrough in the entanglements surrounding last year's US Gulf disaster came last week. Moex, part of Japan's massive Mitsui keiretsu, which had a 10% stake in the Macondo well through a special purpose company, will make a $1.1bn contribution to the $20bn pool set up to compensate spill victims.

In its release announcing the Moex deal, BP — the operator of the well — stated: "BP is also working to ensure that the other parties involved in the Macondo well – notably, Transocean, which owned and operated the Deepwater Horizon rig; Halliburton, which designed and pumped the unstable cement that the Presidential Commission found was a key cause of the accident; and Anadarko, which owned 25 per cent of the project — contribute appropriately." Under lease operating agreements, the "operator", usually the lead investor, is the responsible party when things go awry.

The announcement of Moex's important concession provoked a rise in the shares of Anadarko, a 25% participant in the BP-operated project. Lawyers have varying views on the liability sharing among the field operator and non-operator partners who are, in effect, financial investors. Oil sector analysts were taking the view that Moex's settlement presages a similar arrangement with Anadarko, which had, until it recently softened its stance, denied any liability.

In terms of overall numbers, BP had last year estimated the overall cost of the spill, when all costs and claims were considered, at around $40bn. To some observers, Moex's nearly $1.1bn settlement against a theoretical exposure of $4bn (based on 10% of estimated total liabilities) seemed to be a bargain. Other analysts were quick to point out that a substantial discount is needed to induce a first settlement, and that Anadarko's investment was channelled through a corporate entity less "remote" (and, therefore, easier to sue successfully) than Mitsui's SPC.

The real worry for Anadarko investors would be that a hefty liability might wipe out the company. Indeed, Anadarko states in its recent annual report that: "To the extent that we are ultimately determined to be responsible for our allocable share of the operator's costs under the OA, we expect our costs to be significantly in excess of the coverage limits under our insurance program." It says that it "is positioned to recover the first $163m of insured costs under its existing insurance policy..." should it be found liable. Amid all the legal complexities, Anadarko reveals that it is also going after the insurances of Transocean, the owner of the ill-fated Deepwater Horizon.

According to the narrative, BP had sent an invoice to Anadarko in early April for $4.7bn (representing 25% of BP's actual spill-related costs for clean-up and compensation incurred through March 31, 2011). If no deal is reached by around November 2011, which is 190 days following the submission of the invoice, the dispute could then go to arbitration.

Anadarko had said that official findings regarding causes of the April, 2010 disaster could materially impact the company's potential obligations under the operating agreement. It also acknowledged that the US government was closely parsing the implications of the OA related to identification of responsible parties.

Anadarko added: "The US Coast Guard has directly invoiced the identified RPs for reimbursement of spill-related response costs incurred by the USCG and other federal and state agencies." Anadarko notes that the US Department of Justice is also looking at the issue, but does not believe itself to be a responsible party.

Legal distinctions notwithstanding, arbitrations under the operating agreement are risky, because results can be unpredictable; thus the flurry of speculation about a possible settlement with BP.

A back of the envelope calculation points to a potential agreement at around $2.5bn-$3bn, based on Moex paying slightly more than one quarter of its "share" of the Macondo lease.

Extrapolating the company's quarterly free cash flow of $1.67bn hints at annual cash flow of $6.7bn — slightly in excess of Anadarko's anticipated 2011 capital budget of $6.2bn-$6.6bn.

During its recent first quarter 2011 conference call, Anadarko chief executive James Hackett indicated that cash on hand is around $2.5bn, and explicitly mentioned Anadarko's borrowing power in the form of a $5bn undrawn bank facility. Though payments under a settlement might be daunting, the company could survive them; hence the investors' collective sigh of relief. ■

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Diamond Offshore dispute resolved

ANADARKO and Diamond Offshore have resolved a year-long dispute resulting from the 2010 drilling moratorium, *writes Barry Parker in New York.*

In mid 2010, Anadarko had declared force majeure on Diamond's semi-submersible Ocean Monarch — then one year into a multi-year deal that would have run through to the first quarter of 2013, at $440,000 per day — in a case Anadarko had taken to a Federal court.

In a recent filing, Diamond notes: "The parties to the drilling contract have settled such lawsuit pursuant to a confidential settlement agreement and have agreed in such settlement agreement to dismiss the lawsuit."

Ocean Monarch: dispute settled.

The rig, built 1974, underwent a $182m upgrade in 2008 that included a special mooring system to withstand hurricanes in the Gulf of Mexico. It will be drilling one well for Marathon Oil, at $290,000 per day, with a duration of approximately 60 days.

The solution to the court dispute comes, it would seem, in the form of a $1.8bn, five-year quid pro quo. Anadarko has agreed to take two Diamond Offshore drillships now under construction at Hyundai, *Ocean BlackHawk* and *Ocean BlackHornet*, following their deliveries in the fourth quarter of 2013 and the second quarter of 2014, respectively.

Dahlman Rose veteran offshore analyst James Crandall has backed out dayrates implied in the deal. In his weekly report, he tells investors: "Diamond secured two of its recently-ordered drillships with Anadarko at $495,000 per day for five years each.

"While Diamond's dayrate is impressive, the adjusted dayrate is likely to be below $465,000 per day after taking into account Anadarko's termination of its contract on Diamond's Ocean Monarch." ■

Anadarko expands it frontiers with deepwater drilling

THE attention given to Anadarko's involvement in Macondo belies a host of positive developments at the company, *writes Barry Parker in New York.*

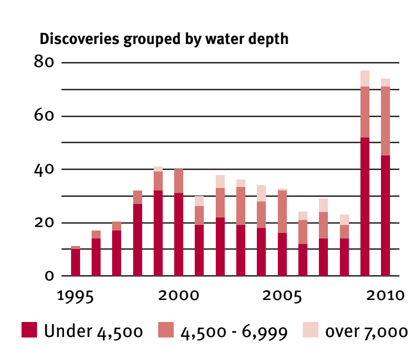
It is one of 10 members in the new Marine Well Containment Co, which currently offers a specially-fabricated "capping stack" for containing discharges on wells at depths to 8,000 ft. It has also joined the Helix Well Containment Group, which provides an alternative capping technology and response system. Both consortia, serving the Gulf of Mexico, will be bringing 10,000 ft capabilities online.

A full 10% of Anadarko's massive $6.2bn to $6.6bn annual capital budget is devoted to activities in the Gulf of Mexico, where the company has completed development drilling and is readying for first oil in 2012 at Caesar/Tonga, in the Green Canyon, where it is partnered with Shell and Statoil.

Its Lucius field, in the Keathley Canyon, at 7,100 ft depth, will be undergoing further study using Ensco 8500. The rig, a semi-submersible earning in the "low-$300,000s", based on a charter at $298,000 per day plus amortisation of one-time payments, will remain in the Gulf of Mexico.

DEEPWATER DISCOVERIES 1995 - 2010

Major Deepwater Basins



Source: PFC Energy, Ensco

The company says it will contract an additional "deepwater rig of opportunity" if its applications for further exploration in the area turn into drilling permits.

A much larger proportion of Anadarko's budget, some 25%, is devoted to exploration and production in "international/frontier" regions. Tellingly, Anadarko has announced an intention to move Transocean's drillship *Discoverer Spirit* — on charter through 2014 at $520,000 per day and the subject of one of three Gulf of Mexico force majeure declarations by Anadarko last year — to West Africa. The rig will drill two prospects offshore Sierra Leone and, later in the year, in Liberian waters.

The company is a 23.49% participant in the Tullow-operated Jubilee field, now producing into a floating production, storage and offloading unit off Ghana and participates in two fields where appraisals are ongoing: Tullow's Deepwater Tano field and Kosmos Energy's Teak-1, where the semi-submersible Atwood Hunter has completed exploratory drilling and will move to an adjacent field.

Another Transocean drillship, *Deepwater Millennium*, is nearby, working appraisals at the nearby Tweneboa/Enyenra fields, also operated by Tullow, in which Anadarko has an 18% stake.

During a recent Anadarko call , chairman and chief executive James Hackett said: "The Tweneboa/Enyenra complex has the potential to be as large as Jubilee."

His colleague Charles Meloy, who heads up worldwide operations, said an FPSO was getting serious consideration as Tullow and its partners plan the development programme for the field. ■

Australian LNG projects get green light

SHELL gave a much-anticipated approval to its floating liquefied natural gas liquefaction and storage vessel to be deployed at its Prelude field in the Browse Basin off Western Australia. The facility, with 480m loa, is expected to be delivered from Samsung in late 2016, *writes Barry Parker in New York.*

Prelude is one of multiple projects where FLNG could offer a production solution.

One project where offshore gas will be liquefied onshore is the Chevron-led Greater Gorgon project, where gas will be piped in from waters off the coast of Pilbara, northwest Australia, to an LNG plant currently under construction at Barrow Island. Coming online in 2014, annual capacity will be 15m tonnes per year of LNG.

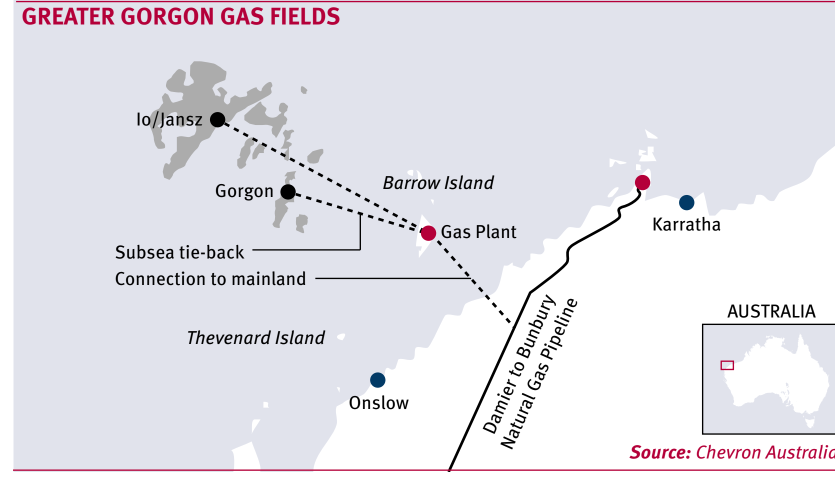
Two conventionally-moored semi-submersibles will be working for Chevron: Atwood Osprey, newly delivered from Jurong, and the 1982-built Atwood Eagle, now extended for six months at $390,000 per day following delivery of the new rig, as per a previous agreement.

Robert Saltiel, Atwood's president and chief executive, waxed lyrical on prospects for the Atwood Eagle when it comes off charter following the extension.

He told analysts and investors: "The Eagle is in Australia, which — as most people know — is seeing quite a bit of activity now. There is a lot of interest around further gas developments there that's driving a lot of the drilling."

Shortly after its investor call, Atwood announced the Atwood Eagle had been hired by BHP Billiton, at a dayrate of $376,000, to drill one well following the six-month Chevron deal. ■

GREATER GORGON GAS FIELDS



Source: Chevron Australia