

# US Gulf springs back to life after moratorium

Recent deals also point to buoyant West Africa and Guiana among the core basins



Barry Parker – New York

MORGAN Stanley analyst Evan Calio has declared the "Gulf of Mexico is back in business".

One of the big successes has been a recent discovery, by Transocean's drillship *Discover Inspiration* at a water depth of roughly 6,800 ft, at the Chevron-operated Moccasin field in the Gulf of Mexico. Drilling at the field, 200 miles south of Louisiana, had stopped for 10 months due to the drilling moratorium.

Mr Calio's assertion is supported by recent news that BP has cleared the first regulatory hurdles in gaining permits to drill at the Kaskida prospect in the Gulf of Mexico — thought to hold as much as 3bn barrels of oil equivalent. One specific approval has been gained for a well at the site, to be drilled at a 6,000 ft depth.

Diamond Offshore chief executive Larry Dickerson said in the company's recent third-quarter 2011 conference call:

"The permit situation is certainly improving, and we see some optimism out there in some of the big contracts that have been signed."

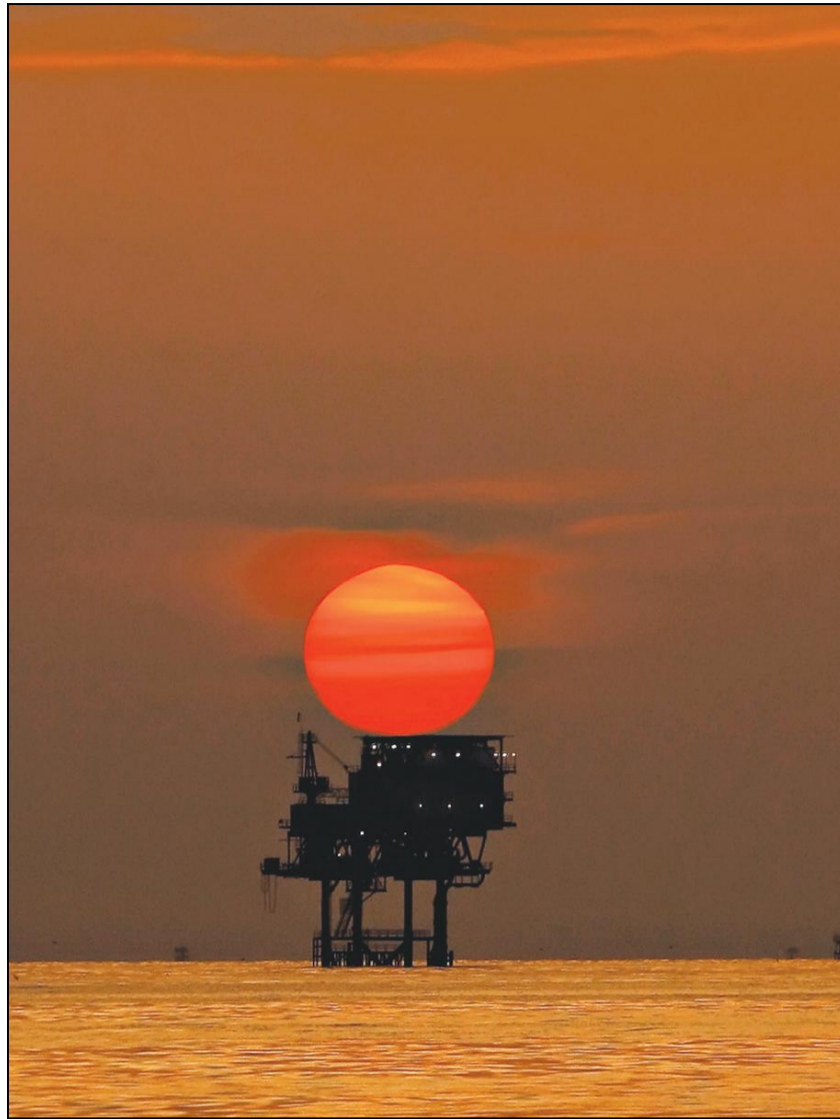
Just prior to the BP news, Seadrill fixed its newbuilding semi-submersible West Capricorn at a day rate equating to \$487,000, with the five-year term contract described as being in the North American market.

Brighter prospects in the Gulf of Mexico were also evidenced by a shared tri-party contract for the EnSCO 8505, a new ultradeepwater semi-submersible scheduled for delivery in the first quarter of 2012 from Keppel FELS. The rig will go on charter for two years to Anadarko, Apache and Noble Energy, with rotating charters, at a hefty \$475,000 per day with cost adjustments upward.

Mr Dickerson said: "You are starting to see several rigs being contracted for term work. To me, that's a positive sign."

Analyst Scott Burk from Canaccord Genuity, in a recommendation of Atwood Oceanics (whose newbuilding Atwood Condor will go on charter to Hess in the Gulf of Mexico next year at \$515,000 per day) said: "These contracts confirm robust rates for new ultradeepwater rigs and point to increased confidence by exploration and production companies that permits and drilling activity will continue to improve in the Gulf of Mexico."

In West Africa another Seadrill newbuilding, ultradeepwater semi-



Renewed exploration is the precursor to new production in the Gulf of Mexico.

Bloomberg

submersible West Leo, is going on to Tullow to work offshore Ghana for one year at \$510,000 per day, commencing in the first quarter 2012.

Looking ahead, Morgan Stanley rates the West African pre-salt and transform margin, which stretches across the Atlantic, as "the most exciting" among the world's oil exploration basins. Hess has struck oil using the 2010-built semisubmersible Maersk Deliverer at the Paradise field, with reserves estimated to be 4,000 boe, offshore Ghana near the now producing Jubilee field.

Maersk Discoverer, a sister unit in the DSS 21 series built one year earlier at Keppel FELS, will be going on charter to BP in offshore Egypt at just under \$500,000 per day after completing work for Woodside in Western Australia.

In Angola, Morgan Stanley's Mr Calio says Cobalt is testing right now and will be the first to drill into that country's pre-salt formations — thought to be geologically similar to those off Brazil. Working alongside production-sharing partner Sonangol, Cobalt is the operator of two prospects being drilled by Diamond Offshore's semisubmersible Ocean Confidence at water depths of 1,500 m-1,700 m. The rig was mobilised to West Africa last year after the drilling moratorium had stalled Cobalt's plans for drilling in the Gulf of Mexico.

In theory, one lengthy formation runs from South America to West Africa. Vast

discoveries at the Brazilian pre-salt increase the probability of successful exploration in for Cobalt in Angola's Block 21. Likewise, the success in Ghana (Jubilee and now Paradise-1) augur well for better odds of oil strikes in French Guiana, Suriname and Guyana.

A March 2011 report on French Guiana by Tudor, Pickering & Holt says: "There are identifiable analogies between the West African offshore petroleum system and the Guiana/Suriname offshore petroleum system."

Tullow, in the "large cap" category with an equity value of circa £13bn (\$21bn), has found oil at Zaedyus offshore French Guiana (rated at 700m boe) drilled with the rig EnSCO 8503. The 8503 is a sister to the 8505, taken by Tullow on a sublet at the inception of the moratorium and now set to go back into its intended Gulf of Mexico contact with Cobalt International.

In describing its activity at its Zaedyus well, where partners include Shell and Total, Tullow explains its objective was "to test whether the Jubilee play, successfully established in West Africa, was mirrored on the other side of the Atlantic".

The news in the region is not all good. Among 2011's disappointments listed by Morgan Stanley was Murphy's failure to find exploitable deposits, employing the jack-up Atwood Beacon at the Caracara and Aracari fields offshore Suriname. ■

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## Offshore exploration likely to rise 18% next year

OFFSHORE oil exploration offers high impact potential for 2012, according to the analyst team at investment bank Morgan Stanley, writes Barry Parker.

A Morgan Stanley survey of companies drilling wells in fields of at least 100m barrels found offshore exploration likely to rise 18% in 2012, compared to 2011.

Taking a longer term view, analysts Ole Slorer and Evan Calio saw 2006 as a cyclical inflection point when discoveries exceeded 20bn barrels of oil equivalent for the first time since 2000. In 2010, categorised along with 2011 as being "among the biggest exploration years in the past 20 years, offshore oil drillers discovered 29.5bn boe — the best year in a decade, attributable to a combination of exploration successes and technology".

Speaking of the exploration side of the oil markets, Mr Calio said: "We are looking at one of the most exciting times to be in this business."

From an investor standpoint, exploratory drillers in the "small cap" and "mid cap" sectors have more upside leverage, and more risk, than their "large cap" brethren, "having



Offshore oil offers high impact potential.

aggressively secured large acreage positions in frontier plays".

Besides actually drilling into a large oil deposit, the smaller players, who comprise an integral part of an exploration portfolio assembled for investors by Morgan Stanley, can benefit from "interest from majors". In "farm-ins", a large independent or integrated oil company will buy into a stake after the smaller exploration outfit has invested "seed money" and indeed shown the potential of particular field.

For rig owners, Morgan Stanley describes an upswing in demand, particularly for floating units (drillships and semi-submersibles), as demand picks up worldwide in a series of "emerging deepwater basins" beyond three "core" basins — the Gulf of Mexico, South America and West Africa. In the deepwater sector, in water depths of 5,000 ft and greater, the Morgan Stanley analysts look for 20% well growth year on year, in the face of a 10% growth in the supply of suitable rig capacity.

The conclusion is that "we may see a rig deficit". In recommending stocks for those investors looking at the rig owners, the broker highlights a group of companies led by the "large cap" triad of EnSCO, Seadrill and Transocean, with deep and ultradeepwater rig fleets that might benefit if the optimistic forecasts do indeed play out.

Timing is everything for rig owners, with the latest-generation ultradeepwater units commanding dayrates straddling the all-important \$500,000 level. In a new Dahlman Rose report recommending Noble Corporation, analyst Jim Crandell sites 14 rigs under construction (eight drillships and six jack-ups) with deliveries over the next three years. Mr Crandell says: "We view the timing of these rig deliveries as very favourable for Noble, as it looks to lock these in on term contracts at higher day rates." ■

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Transocean drillships have been responsible for the latest discoveries.

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## Deepwater basins attract exploration

MORGAN Stanley has described 2011, five years into the cyclical upswing, as a year characterised by "more major discoveries than dry holes", writes Barry Parker.

By Morgan Stanley's reckoning, notable successes so far in 2011 are headlined by the Statoil and Lundin North Sea discovery at Aldous South, Avaldsness, with estimated resources of more than 1.8bn barrels of oil equivalent.

Transocean's Transocean Leader, booked to Statoil at \$461,000 per day, is conducting ongoing appraisal work; Lundin had recently upped its estimates of reserves at the field, which Morgan Stanley labelled "the largest discovery in the North Sea since the 1980s". The broker points to increased likelihood of drilling in frontier areas such as the Barents Sea and the Faroe/Shetlands Basin, predicated on "higher commodity price and improved technology".

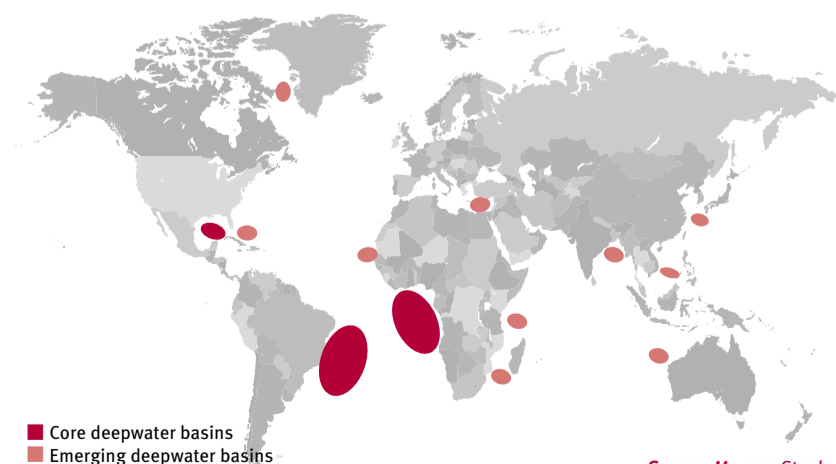
The North Sea offers further corroboration of the highly bullish Morgan Stanley thesis. Consultants Wood MacKenzie suggested that investment in the UK North Sea would reach levels not seen since the mid-1990s. Echoing the Morgan Stanley view on the robustness of exploration by "small cap" participants,

Wood Mackenzie estimated that the number of smaller exploration outfits had grown by 50% from 2009.

The majors, including Chevron and Total, were clearly leading the region's investment push, which Wood Mackenzie reckoned to be worth \$38bn, chasing resources estimated to be around 2bn

barrels of oil equivalent in the aggregate. Looking at Greenland, where Cairn came up empty this past season, Morgan Stanley says: "The company plans another drilling campaign for 2012," adding that other operators are likely to drill in Greenland following the Baffin lease auction in late 2010.

### CORE AND EMERGING DEEPWATER BASINS



The Falklands have also made the list of up-and-comers with special mention given to Rockhopper Exploration's Sea Lion discovery in the Northern Basin. News reports have Rockhopper extending its drilling campaign to an adjacent prospect after buying into a field that had been controlled by Desire Petroleum. The prospect will be drilled out with Diamond Offshore's semi-submersible Ocean Guardian, prior to the end of the season.

Marketing executive Mo Plaisance said: "Yes, I think we have drilled two additional wells from where we're at right now with the Guardian, and we're actively marketing it in the UK. Our expectation is that we should pick up something fairly soon once we leave Falkland." The rig is on through mid-November at a day rate in the mid-\$270,000s.

Two UK "small caps", Borders and Southern, and Falklands Oil & Gas, will both be drilling in the Falklands, early next year, using OceanRig's semi-submersible Leiv Eiriksson, which will be mobilised from Greenland where it is finishing up work for Cairn, a "mid cap" company with capitalisation of more than £4bn (\$6.4bn). ■

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