Noble Drilling’s Noble Piet van Ede recently won the jackup award for outstanding safety performance over 9 years at the IADC North Sea Chapter Safety Awards show. “No one can afford to be complacent” about safety, chapter chairman Roger Hodgson said.
THE NORTH SEA may be a mature province, yet there remains much to play for — some 40 billion bbls oil equivalent roughly equally split between Norway and the UK. The potential for the Northwest Europe Continental Shelf as a whole may be considerably larger, but that depends on Ireland, where talk is of large Atlantic Frontier prospects yet sparse results to date.

Step back to the oil price crunch of the late 1990s, and the North Sea (aka NWECS) was judged by pundits and many within the offshore industry to be a write-off, a state of affairs bitterly experienced by many IADC members and the wider supply chain. Today’s talk is of at least another 20-40 years worth of production.

Even though the price of a barrel was back above $20 a barrel by Offshore Europe 1999 (having sunk to sub-$10 for a few days in November 1998) and has never retrenched since from the dizzy heights of $70 or so per barrel, deep uncertainty prevailed across the North Sea until about 2004.

Then it was as if the blanket of gloom was suddenly swept away. The operator community was galvanized into action, though from a much lower point in the UK than Norway, where a steadier fiscal and regulatory approach had helped operators ride the storm relatively well.

Today, the E&A effort is reckoned to be running at a reasonably sustainable level, with UK analysts Hannon Westwood reckoning that, while 2007 spuds are currently behind 2006, the count should end usefully above 50, which they calculate as the minimum count to achieve reasonable reserves replacement. H-W’s Andrew Vinall sees a respectable rate being sustained for the next few years, with a “pretty healthy” 2008-09 predicted.

Lead NCS player Statoil is also cautiously optimistic, recently predicting that 2008 could see an increase in E&A activity.

WHAT IS DRIVING CHANGE

This review is neither about North Sea rig and well stats nor which IADC member company is doing what with its rigs. Rather, its about what is driving change — pressures exerted as a result of the current global boom, changing business practices, competency issues and so-forth, bearing in mind that what happens today may have a profound influence on tomorrow.

Arguably the biggest change under way is the emergence of a new type of service entity geared to the requirements of the many smaller E&P players now entering the North Sea. By this one means a contractor that manages every aspect of an operator’s drilling programme, from planning to execution, including contracting MODUs directly or via assignment.

In this regard, the company that has everyone talking in the North Sea is Peak Well Management, now part of Norway’s fast-growing AGR Group. Peak, led by managing director Bob Lyons, was created in Aberdeen when rig rates were in the basement and 22 semisubmersibles were stacked in the Moray Firth, yet oil prices were already back over $30 per barrel.

The year was 2001.

Peak’s initial objective was to offer a service to homegrown new-generation E&P companies lacking in-house capability and UKCS incomers, essentially North American brands preferring to take a lean approach to managing their North Sea activities.

The firm’s emergence coincided with the UK Department of Industry drive to revive activity through novel budget-price Promote and Frontier licences, and through working with industry on schemes such as the Fallow Fields Initiative.

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majors for niche projects. The fact that Peak has become such a big buyer of spare capacity via contract assignments has, in any case, made them sit up.

Mr Lyons is confident that the Peak model is working; furthermore, there are signs that others are starting to copy it, with various proposals made.

“We will have five rigs on contract in the UKCS and one in the Norwegian sector by September (2007),” he said. “The UKCS rigs run through to the middle of Q3 2008; the Norwegian commitment is for three years and takes us through to 2009.”

On the UKCS, this currently includes Byford Dolphin, Transocean Prospect, Sedco 704 and Ensco 100 (coming in from Nigeria). The Norway hire is Bredford Dolphin serving a portfolio of 10 operators.

“Basically, that means Peak commands five out of the current UKCS MODU population of about 40 and one out of 22 or so in Norway. Based on the Baker Hughes offshore rig count for May, of 60 MODUs in European waters, Peak commands 10% of the market. It may reach 15% within a year.

Mr Lyons reckons Peak has become a friend to the majors, especially as, over the past couple or three years, many rushed into long-term hires simply to secure MODU tonnage, with no real consideration as to how work programmes would pan out. It was a case of buy now and sort out the consequences later.

Peak offered the perfect solution, assembling cohesive portfolio programmes for its clients and then scouring the North Sea market for spare rig capacity.

“We’ve swept up just about every available assigned capacity that has come up over the last eight to nine months,” he said. “Three of the rigs that we have are on contract assignment — Transocean Prospect, Byford Dolphin and the 704 — two from CNR and the third from BP.”

In essence, Peak is taking up drilling slot slack, and that is of critical importance at a time when cost inflation is becoming a big issue.

But there are also one or two bold players like Oilexco that, having hired rigs on a risk basis, have then taken a DIY approach to filling slack periods. This Canadian company’s
founder/president Arthur Milholland has been extraordinarily successful in securing third-party business for the Ocean Guardian and Sedco 712. Not only that, he has been able to leverage farm-in deals to tasty acreage licensed to small E&P companies lacking the wherewithal to hire a MODU to discharge drilling commitments.

A measure of the Milholland approach is the manner in which Oilexco has boldly issued a two-year contract extension covering the 712 out to March 2010 and which is worth $238 million to Transocean. Moreover, he was willing to pay a 50% or so higher dayrate, up from $225,000 at present to $340,000. This compares with the original contracted rate of $140,000 agreed for 2006. Oilexco has also stretched its arrangement with Diamond Offshore for the Ocean Guardian.

The 712 deals illustrate especially well the pace of dayrate inflation over the past four to five years. Moreover, this is starting to bite with operators, not just small but large, too.

As of now, on the North Sea open market, there is nothing available to be contracted for the remainder of 2007. The last rig fixture was the John Shaw, which went to TOTAL.

This situation is further aggravated by the fact that several MODU's have left the North Sea for better pickings elsewhere as operators have not been willing or able to come up with contract offers that match or beat those offered elsewhere.

That said, there are newbuilds committed to NWECs, a good example being Awilco's deal with Hydro to provide the WilInnovator and WilPromotor to carry out production drilling on the Troll field.

The duo will start operations mid-2009 and Q2 2010, respectively. Each contract has a fixed five-year duration from its start-up date, and Hydro has the option to extend one or both contracts to eight years, within 60 days of contract award.

Currently, Hydro is using three MODUs for production drilling on Troll, and their contracts are due to expire in 2009.

Generally, however, most of the current newbuilds are not considered suitable for North Sea deployment, with deepwater semis destined elsewhere and jackups mostly kitted out with tropical/subtropical work in mind.

“Yes, you can bring in existing units,” Mr Lyons added. “But then there are North Sea certification issues and, even at today’s dayrates, that’s considered costly. The situation is, if anything, more acute in the Norwegian sector.

“If you as an operator were to go look at RigPoint and say: ‘I want a rig any time for the rest of this year,’ there’s nothing.”

Ask around, and expectation is that some capacity will emerge with jackups in 2008, but semis capacity will remain as tight as ever, including in Norway.
There are two main reasons for the possible easing with jackups. The first is that there is a substantial global order book for new tonnage, though few units will be designated harsh-environment. The second is that there has been a dramatic weakening of UKCS gas prices and, according to Houston-based energy investment bank Simmons & Co International, this is already causing operators to hang back on making or implementing exploration/development investment decisions.

This state of affairs has been commented on by various operators, including TOTAL; also by Malcolm Webb, chief executive of the trade association Oil & Gas UK.

He has warned the UK government that its rigid stance on taxation is nonsensical given that North Sea gas is fetching the equivalent of just $22 per barrel equivalent, whereas find/develop/produce costs are $25 per barrel. Not only that, a high proportion of North Sea output is based on gas — UK, Norway and the Netherlands especially.

TOTAL’s Europe senior VP Michel Contie and Roland Festor, managing director of the group’s UK business, chime in on this issue: “We’re still enthusiastic about the North Sea. But we have concerns with exploration for gas. With the outlook for gas prices in the UK, it’s becoming more and more difficult to justify exploration for gas.

“Yet we’re still pursuing gas West of Shetland because we want to develop Laggan. But Laggan has to be boosted somehow. There are two ways to do this — find more gas and cut a deal with the UK Treasury.

“This is why we have just brought the Sedco 714 on location on the Tormore prospect for a 60-day exploration programme. But we still need more dialogue with the UK treasury.”

“We expect to drill two E&A wells per year through to 2010 unless the price of gas makes the economics too difficult.”

Mr Contie expressed worry about hunting for gas on the NCS, too. Citing his aspiration to get moving with Victoria, which is held 50:50 with Statoil, he said: “This is deep gas, and the reservoir is tight. Just one well will cost around $20 million. So we have to be certain.”

Ask other UKCS players, especially about the gas situation, and you will get much the same answer; analysts too. Disappointment.
Again, ask about why it is that Norway and the UK have not come to an accord over their differing regulatory regimes governing MODUs transiting between the UKCS and NCS or vice versa, and disappointment is expressed.

“North Sea commonality is something we’d like to see,” said Mr Lyons of Peak. “That’s a frustration, and it’s one we’ve had numerous discussions about. There has been a requirement to use a rig on both sides of the line, but the difference in compliance regimes meant we couldn’t.”

The same issue confronts Mr Contie and Mr Festor. For some years, Mr Contie has sought a development solution for the NCS Hild discovery. The signing of the UK-Norway corridor treaty helped. But, with Hild so close to the company’s UKCS Alwyn complex and with the Jura development now initiated, using one MODU to execute the necessaries has a compelling logic. A common UK-Norway standard would assist in that regard but remains “elusive.”

Also elusive is the perfect safety record, which is where this review ends. Current IADC North Sea Chapter chairman Roger Hodgson, of KCA DEUTAG, presided over a moment of reflective silence at the 2007 Safety Awards dinner in Aberdeen, because of recent fatalities and with the tragic loss of the anchor handler Bourbon Dolphin and some of her crew west of Shetland fresh in everyone’s mind.

Mr Hodgson said: “With the high rig rates and escalating well costs, there is an obvious requirement from operators and duty-holders to increase efficiency because of escalating well costs. No one can afford to be complacent.”

He added that the need for maximum safety vigilance extends into competency training but that, while bringing in trainees through IADC’s “greenhand” initiative is proving effective, there is a growing shortage of experienced people at supervisory and driller levels, and this poses threats, both in terms of efficiency and safety performance.

“Ultimately, competency comes only through experience,” he added.