DRILLING AHEAD

In cradle of offshore drilling, the times, they are a'changin'

Mike Killalea, Editor & Publisher

OUR COVER FEATURES a Gulf of Mexico jackup silhouetted against the horizon. Is the sun setting or rising for Gulf of Mexico drilling? One thing is certain. The GOM is changing, maybe for good.

The GOM has seen its share of ups and downs in the 60 years since **Kerr McGee** spudded the first well drilled from a mobile rig. In 1992, the GOM reached its nadir. "The Dead Sea of Drilling," the headlines smirked.

Today, activity on the shelf is under pressure, but hopes are high for the deepwater frontier. On the shelf, the number of available jackups has dropped nearly in half since 2001, to just 79 from 156. Plus, only about 63 jackups were under contract and working at press time.

Shelf drilling never really recovered from the disastrous 2005 "KatRita" hurricane season. Some operators point to soft gas prices, but natural gas has hovered fairly steadily in the $7-$8 range. However, at press time, gas storage levels stood at about 1.6 Bcf, more than a third above normal.

The larger issue is the accelerating exodus of jackups from the GOM. More lucrative opportunities are available elsewhere, from the Mediterranean and North Sea to Southeast and South Asia. The juiciest markets lie in the Middle East. In short, jackups can do well nearly everywhere *except* the US Gulf of Mexico. (Even the *Mexican* GOM is decent.)

Rates and contract terms outside the US dwarf traditional GOM well-to-well deals. Well-to-well contracts might make economic sense in a market oversupplied with jackups, but it can't compete today. (Whether it makes sense from HSE or efficiency standpoints is another conversation.)

Jackup demand in most markets is expected to be strong well into 2008. In response, operators outside the US are snapping up high-performance jackups on long-term contracts, plus footing the bill for transatlantic mobilization. These are deals a jackup contractor can't refuse.

Even as rigs can earn more outside the GOM, their owners also save on the cost of insurance, driven into orbit following the 2005 hurricane season. Questions of liability and expense sharing is yet another bone of contention between drilling contractors and their erstwhile customers.

And the rigs that go where the hurricanes don't blow represent top-of-the-line equipment, not the bottom of the barrel. As **Mark Keller**, executive vice president of business development, **Rowan Companies**, warns elsewhere in this issue, "One day US producers could wake up and find themselves with a fleet of operationally limited jackups that may not be able to drill some of the deeper wells in their program."

Late last year, frustrated by their inability to secure rigs, some operators toyed with the notion of building and operating their own equipment. This, in my opinion, is a road to disappointment, if not disaster. Owning and operating rigs is not core business for producers, anymore than building rotary steerables or manufacturing drill pipe. I knew an otherwise successful and smart Oklahoma wildcatter who got into the rig business in the late 1970s. "I got so darned mad that I couldn't find a rig," he said, "that I started my own company." He would pause a beat, then quip, "I'll never get that mad again."

The lesson is, that, if the resource is worth drilling for on the shelf, operators will compete in a global jackup market. There are creative options, such as rig sharing, to develop attractive long-term contracts.

Whatever happens, it will be different from what has gone before, and the industry must adapt with it.

Editor's note: Reporting by DC associate editor ***Linda Hsieh*** *contributed to this column.*

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