

2007 IADC chairman, Transocean's Bob Long, to focus on leading industry to new level in safety, people

By Linda Hsieh, associate editor

'We've done a great job in the past 4 to 5 years keeping our safety records up, but we must stay focused on safety wherever we operate.'

— Robert L Long

WHEN ROBERT L LONG graduated from the US Naval Academy in 1968, he envisioned a career in the Navy or the Marines.



Above: 2007 IADC chairman Robert L Long. **On facing page:** Transocean Marianas.

For Mr Long, the military was a fascination going back to childhood. So, as a young high school graduate in mid-1960s Massachusetts, it seemed perfectly natural to head straight into the US Naval Academy. Before long, he was selected to go into the prestigious US Naval Nuclear Power Program. The tough curriculum there included 6 months of theoretical nuclear engineering and 6 months of training at a land-based nuclear power facility.

While Mr Long said he no longer uses the nuclear engineering he was taught nearly 40 years ago, the core values he learned – honor, courage and commitment – have stuck with him to this day. “It’s something you never forget. It becomes a part of you,” he said.

Coming out of the naval nuclear program, Mr Long was immediately assigned to a nuclear submarine as a reactors control officer.

After serving for 5 years, married and with 2 young children, Mr Long began to “question the separation” from his family that a military career would require. He eventually left the Navy to attend the Harvard Graduate School of Business, where he earned an MBA in finance in 1975.

INTO THE OIL INDUSTRY

With a Harvard MBA in hand, Mr Long now had to choose a new industry to begin his next career, and he opted for the oil and gas business.

“Some of the biggest projects going on around the world at that time were massive energy projects, which excited me

because they would combine my marine engineering background and massive-scale financing,” he said.

Mr Long joined **Southern Natural Resources** and was soon employed as a corporate planning analyst at a subsidiary which was one of several predecessor companies that later became **Transocean**. It would be more than a quarter-century later that he would be elected Transocean’s CEO, but it didn’t take that long for him to be impressed by what he saw then – leading-edge technologies and seemingly endless opportunities.

“It was a very can-do organization, with interesting people involved in interesting things all around the world,” he said. “There were some remarkable technological developments going on as well. These technologies would seem fairly basic compared to what we have today, but at the time, they were cutting-edge innovations.”

Many of these innovations can be seen in the marks made by Transocean and its predecessor companies on offshore drilling history. For example, **The Offshore Company** launched the first jackup drilling rig in 1954. In the 1960s, Transocean built the first jackup to work in the harsh North Sea environment. By 1975, Transocean had built the *Discoverer*

Transocean’s newbuilds

Transocean is currently building 3 new deepwater drilling rigs against multi-year contracts, 2 from Chevron and 1 from Hydro. All 3 will be enhanced Enterprise-class drillships, designed to include the most advanced drilling capabilities of the industry. All dynamically positioned with double hulls, the drillships will feature Transocean’s patented dual-activity drilling technology, which allows for parallel drilling operations designed to save time and money in deepwater well construction. Combined with a new and enhanced top drive system, an expanded high-pressure mud-pump system and expanded completions capabilities, the rigs target the drilling of wells up to 40,000 ft. The rigs will each have a variable deckload of more than 20,000 metric tons and be capable of drilling in water depths up to 12,000 ft.

Two rigs are scheduled to be delivered in mid-2009 and 1 in early 2010.

Seven Seas, which was the biggest deepwater rig at the time and went on to set numerous deepwater drilling records over the next 20 years. Mr Long himself worked on the *Discoverer Seven Seas* from 1978-82 as division engineer, going from Congo to Spain to Italy to Canada to the North Sea, and back to Africa again.

To Mr Long, these innovations led the way for others, such as the *Express-Class* and *Deepwater Horizon* semisubmersible rigs and the *Enterprise-Class* and *Pathfinder-Class* drillships which have set record after offshore-drilling record. In short, they signaled a tremendous outlook and a world of business possibilities.

“In prior years, The Offshore Company and our other predecessor companies have owned land rigs, workboats and even a subsea systems company. They also had the potential to get into businesses like pipe-laying or marine construction. Of course, a lot of those possibilities are no longer part of our business today, but the opportunities and potential were enormous.”

A STRONG MARKET

That potential continues just as strong today, especially as high commodity prices over the past year continue to boost rig rates for drilling contractors.

Transocean has seen no small share of that, signing numerous multi-year contracts at record rates. Operators in these contracts have included **Hydro, Chevron, BP, Reliance Industries, Repsol Exploración, ONGC and Devon Energy.**

Mr Long predicts that the floating drilling business will continue to see robust growth as companies drill deeper wells and in deeper waters in order to meet the world's ever-increasing energy demand.

"We're continuing to see the industry step out further and further. We started with land drilling, then went to the swamps, then to the shelves, then to floating drilling," he said. "Deep water used to be 600 ft, then it was 1,000 ft, then 2,000, then 10,000. Now, all the new rigs that Transocean is building have 12,000-ft capability."

Industry-wide, more than 90 offshore rigs are being built, but the business isn't just growing in the number of units, Mr Long pointed out. It's also growing rapidly in regards to the cost and complexity of drilling in increasingly difficult environments. For example, he said, consider the announcement in early September on the Jack #2 well in the Gulf of Mexico by Chevron Corp, Devon Energy Corp and Statoil. That well was completed and tested in 7,000 ft of water and more than 20,000 ft under the seafloor, breaking the record for the deepest successful well test in the Gulf of Mexico.

"The Lower Tertiary is a new frontier where we will be drilling deeper and tougher wells, and we need to figure out how to drill these wells much more efficiently," he said. "The industry will only benefit if we can drill these wells safely with the lowest overall cost possible. And if you consider the capital that must be invested in order to do this, we're looking at tremendous growth for the industry."

GLOBAL OUTLOOK

Looking worldwide at floating drilling rigs, Mr Long said, it would be hard to pinpoint any one specific region for strong growth because all areas are expanding. However, one thing is clear: Offshore operators are headed for deeper and deeper waters.

He cited deepwater Gulf of Mexico, Mexico, Brazil, India, offshore Egypt and the Mediterranean, and China all as growing with significant promise. "And for the first time next year, East Africa will see some deepwater drilling," he



Transocean CEO Robert L Long (left) earlier this year signed the drilling contract for the newbuild drillship Discoverer Clear Leader with Ray Wilcox of Chevron.

pointed out. "That comes on top of continued interest in West African development and exploration projects."

Mr Long also said he believes that the deepwater floater rig shortage we saw beginning in 2006 will continue for at least the next few years. Moreover, much of the world's deepwater fleet is already contracted out to 2008 and beyond. At Transocean, most of its existing deepwater fleet is contracted out to 2009-2010, and initial contracts already carry its 3 newbuilds out to at least 2013-2015.

"Our industry continues to see additional newbuild contracts with strong rates and term durations of 3 years or more," he said. "And when new contracts are signed for existing 5th-generation rigs, I am optimistic that the rates will be as good as or better than current contracts."

HURRICANE CONCERNS

Since the devastating back-to-back hurricanes of 2005, more than a dozen rigs have gradually left the Gulf of Mexico's rough waters. Transocean, however, still has 10 floating rigs operating in the region, 2 more will be mobilized there in 2007, and its 3 newbuilds – all dynamically positioned (DP) – will be headed there upon completion.

"Transocean doesn't see an unmanageable hurricane risk to the DP rigs in the Gulf of Mexico because our procedures give us enough warning to pull the riser and move away from the storm," Mr Long said.

Some operators have been voicing a preference for DP rigs, he added, but the industry is still seeing a fair amount of

demand for moored rigs in the Gulf of Mexico.

"As long as we can get the appropriate contractual protection, Transocean has not made a conscious decision to move our rigs out of there," he explained.

One of the 2 rigs to be mobilized there, the Henry Goodrich, currently drilling offshore Eastern Canada, is already equipped with a robust 12-point mooring system, and the Jack Bates, coming in from Australia, will be upgraded with the same capability before it begins GOM operations.

All this GOM activity is just part of thousands of hours of hurricane preparation and planning by parties including offshore contract drillers, vendors, clients and governmental agencies.

"The hurricanes are definitely a factor," Mr Long said. "They impact the amount of time that operators have to drill. An oil company may lose 5 to 7 days shutting down operations due to a hurricane warning, even if the storm never hits. Add that up across the Gulf of Mexico and that's a lot of drilling days."

"Additionally, new site-specific safety assessments may affect where a customer can use rigs during hurricane season," he added. "These are all issues we will have to manage, and they will certainly have an impact on capacity in the Gulf of Mexico."

OIL PRICES

By early October, crude prices had dropped to about \$60 from a summer-time high of nearly \$80 per barrel. Wall Street appears to believe that this is the beginning of the ride down to \$30 again,

but that “overreaction” isn’t putting Mr Long on the edge of his seat.

“The price drop so far doesn’t raise any fundamental concern for our business,” he said. “I think you could even make the argument that the industry’s better off at \$65 rather than \$80 because there’s less impact on the overall economy. I suspect that oil could go down to near \$40 and still not have much of a fundamental impact on the economics. So, right now, the numbers still look great.”

OBSTACLES, GOALS

Stepping up to take the reins as IADC’s 2007 chairman, Mr Long knows the work’s been cut out for him as the industry steps further into a resource-constrained environment, which is sure to bring a host of challenges.

First, the industry must figure out how to recruit new people and train them efficiently, especially as upcoming retirements and young workers dilute the industry’s experience base. “We’ve done a great job in the past 4 to 5 years keeping our safety records up, but we must stay focused on safety wherever we operate,” he cautioned.

Second, the industry needs to work on finding better reliability and better service from its equipment vendors. “The cost of downtime – with today’s dayrates – is huge. There are increasing concerns with not being able to get parts when we need them and with the quality of service in equipment repair,” he said.

And vendor problems could have significant long-term consequences. “We know that equipment suppliers are just as strapped for people as we are. They are so busy working on just supplying and servicing today’s orders. Who is focused on designing the next piece of equipment that will carry this industry forward?”

Third, with scarce resources, the industry must learn to further improve operational efficiency through new rig capabilities, innovative drilling methods or improved logistics. “We need to address nonproductive time for the operator and reduce well costs in order to make new frontier areas economic,” he said.

Looking at these upcoming challenges, Mr Long cited safety and people as the 2 areas to which he will dedicate his 2007 chairman leadership. “I’d like to see the industry’s safety performance continue to improve. That includes better standardization of safety measurements

and metrics,” he said. “Instead of having different contractors play numbers games, we should focus on measuring accurately and pushing the culture that zero-incidents is possible.”

He would also like to lead IADC in promoting our industry to potential workforces around the world. He noted that efforts must be targeted toward the younger population in schools and universities all around the globe.

“For example, at Transocean, we’re working hard to bring in remarkable young talent from many different countries,” he said. “It never ceases to amaze me the capabilities, ideas and energy these young people have. Seeing them interact and bringing them all together as part of a team, that’s one of the most exciting parts of this job.”

A CHALLENGING BUSINESS

Mr Long is obviously leading a success story at Transocean, which not only has benefited from its technical leadership and increased rig demand but also had its best year ever in safety last year. Nevertheless, he is frank about the challenges that offshore drilling contractors face along with their clients and suppliers.

“One, look at our business dynamics – we have an up-cycle in which everyone has essentially the same resource constraints,” he said. “We are all working at virtually full capacity, trying to safely improve performance amid increasing costs and growing demand for technically competent personnel. In some cases, our equipment suppliers have had to commission new production facilities, creating additional challenges to meet their schedules.”

“Second, speculators who have no idea how to operate a rig are investing \$500-\$700 million to own one. Third, you can’t create primary demand. Structurally, we have some basic issues, but nothing that hasn’t been overcome in the past and nothing that we cannot overcome in the future.”

No mistake about it, Mr Long has no regrets about choosing this career path.

“This is the way this business has always been and probably the way it always will be,” he said. “But it’s part of what makes it interesting. Sometimes it’s more difficult than others, but there’s always something new on the horizon.”

For information on Transocean’s recent management changes, see Page 73. ♠