

## The offshore market:

# Utilization rates worldwide hover near 100%; offshore rig demand looks strong into 2014

### SPEAKING AT IADC'S 2006

Annual Meeting on 21 September, Tom Kellock of ODS-Petrodata delivered almost all good news to the crowd, kicking off with the comment, "For the offshore drilling contractors, this is really a great time."

First, he said, there are basically no available rigs today. Every rig that can be working is working; every rig that can't work is being worked on so that it can get to work. "It's a virtually unprecedented situation," said Mr Kellock, ODS-Petrodata head of consulting and research-Houston.

Effective utilization for September 2006 stood at 100% in almost all regions across all rig types. And drilling contractors are busy putting more rigs to work – reactivating, building, upgrading. Although that effort has been pushing on over the past 12-15 months, the number of working offshore rigs doesn't appear to have actually changed. "The industry is working as hard as it can, but so far it hasn't managed to increase the working rig count," he said.

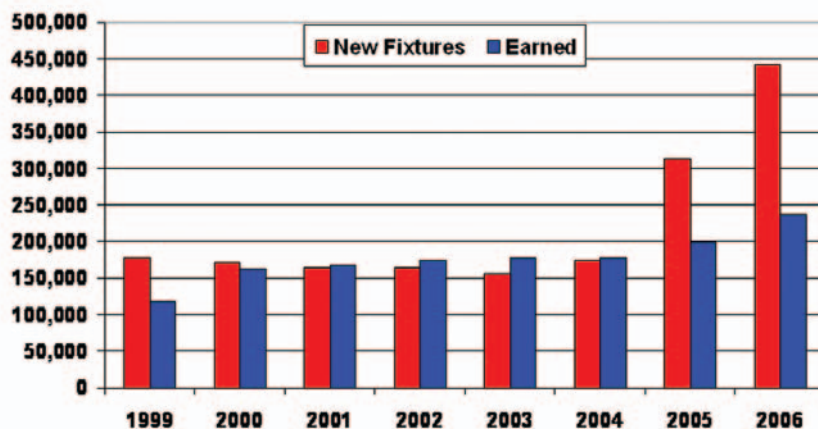
This means that while companies are starting to recognize and address the personnel issues – and it is critical that they do – the often-talked-about "people crisis" has actually yet to come.

What has arrived in full are strong day-rates, which have increased significantly since 2004. That was when the industry began to see average new fixture rates begin to creep up to average earned rates. Then in 2005, new fixture rates rapidly took over, and by 2006, they had become double what the rigs were currently earning. For example, average new fixture dayrates for deepwater floaters have gone from the \$100,000 to \$150,000 range in January 2004 to more than \$400,000 in September 2006.

## DEMAND STILL STRONG

And demand is still rising: ODS-Petrodata expects that over the next year, demand for floaters will top 200 and for jackups will top 400. This

**Deepwater fixtures - rated depth: 7,501 ft+  
Average earned rate vs Average new fixture**

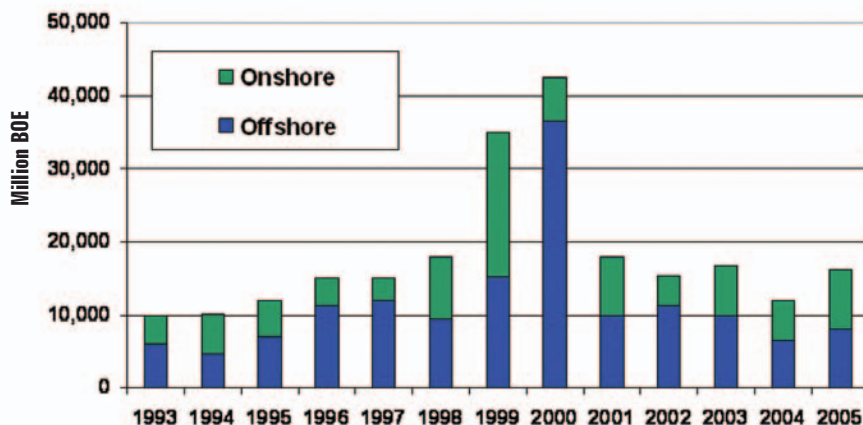


Source: Deepwater Rig Market report - July 2006

Source: ODS-Petrodata

Above: In 2004, average new fixture rates began to creep up to the average earned rates. In 2005, they rapidly took over. By 2006, they were double the average earned rate. Below: Half the oil being discovered today are being discovered offshore, meaning this E&P arena has become increasingly important for operators, said Tom Kellock, head of consulting and research-Houston for ODS-Petrodata.

**Major discoveries\*  
oil and gas - 1993 to 2005**



\* Discoveries > 100 million BOE

Source: IHS

demand is expected to soak up the more than 90 offshore rigs estimated to have been ordered as of September 2006.

While the building boom has already triggered some worry about oversupply,

Mr Kellock still called the newbuild numbers so far "negligible."

Newbuild jackups are only 15% of the existing fleet, and newbuild semisubmersibles are only 18%. It's bigger for

drillships, at 29% of the existing fleet, but, "in terms of adding to the fleet, it's not very much. In terms of replacing some of the older rigs, it's negligible," he said.

Attrition, however, remains a significant question mark. "To think that a rig working right now is going to be retired is unrealistic. Looking into the future, there will likely be very little attrition in the next 5-10 years," Mr Kellock said. There may even be some reverse attrition if previously converted production units rejoin the drilling fleet, he added.

Forecasting "bravely" into 2014, Mr Kellock said demand and visible supply for both jackups and floaters appear to be well balanced. "Looking out as far as we can see, the market will stay very tight for jackups and even tighter for floaters."

## POTENTIAL ISSUES

Even with an overall picture as rosy as this, potential problems still must be monitored, Mr Kellock cautioned. First, there have been reports of projects getting canceled – not postponed but canceled – because dayrates were so high

the project was no longer economical, despite the level of oil prices.

"These isolated incidents aren't enough to have an impact on the overall demand picture, but perhaps it's a slight wake-up call in some areas," he said.

Second, falling commodity prices are a concern. Third, there's a high risk that newbuild rigs currently under construction will be delivered late and over budget, especially considering the industry's performance in previous rig-building booms, he said.

Fourth, many of these newbuilds are still without contract – half of the floaters and 80% of the jackups. "Looking at the forecast, I'm confident these will all be taken up, but there is a certain reluctance on the part of many operators to take these new rigs from new contractors," Mr Kellock pointed out.

Finally, while newbuild numbers aren't a problem now, it will become one if the industry continues to build significantly more rigs. It's especially important, he said, to keep supply and demand at a relative balance if the industry is to kick its boom-and-bust habit.

"There is still a lot of communication missing between operators and drilling contractors. If they can work together, maybe we can end the cycles. If we keep perpetuating these cycles, we're going to go back to the same situation of hiring and firing people," he said. "I ask that everybody do their best at every level to try and keep supply and demand roughly in balance. That's the only way we have a chance of closing that (projected) 100 million bbls/day gap."

And there's no question that the offshore sector will play a critical role in helping to fill the world's energy demand. Half the oil being discovered today are being discovered offshore, he pointed out, meaning this E&P arena has become increasingly important for operators.

"Offshore is going to remain absolutely a key development in the future. So, offshore drillers, your services are going to be needed for a very long time to come."

Yes, this looks like really a great time for offshore drilling contractors.

*This article is based on Tom Kellock's presentation at the 2006 IADC Annual Meeting, held 21-22 September in San Antonio, Texas. ♪*