

North Sea contractors bracing for another tumble in utilization

OVER THE LAST YEAR, North Sea rig utilization has fallen from nearly 100% to below 80%, and some contractors are biting their nails over the possibility of 50% usage by the fourth quarter. While still higher than the lagging Gulf of Mexico and higher than the world average, it's a far cry from a year ago, when every rig that could work was working. Further, any weakness in utilization and, hence, rig rates in the high-cost North Sea environment, creates an economically dicey situation for contractors.

If that's not enough to prompt obsessive nail biting, consider this. As in most arenas, oil-price shocked operators in the North Sea have been relentlessly budget cutting. But the worse trend is to move budgetary authority away from local offices to headquarters.

"More and more, oil companies are allocating funds on a global basis," explained **Bob MacChesney**, Chairman of the IADC North Sea Chapter, who heads up **Sedco Forex's** North Sea operations. "We've experienced what you in the States would call a paradigm shift due to oil prices falling to \$10. Even now that oil prices are increasing, oil companies are taking the view of what their investment would be worth not at current prices, but at \$10."

As a consequence, planners now tend to shy away from high-cost, maturing basins like the North Sea, he explained.

In the frontier Atlantic Margin, thought of not long ago as the future of the region, only 2 exploratory wells are planned this year, Mr MacChesney said, though development programs continue apace. In 1995, Sedco Forex's semisubmersible Sovereign Explorer became the first rig to operate year round West of Shetland and in water depths exceeding 1,500 ft.

Soft oil can be blamed partially for the cutbacks, but not entirely, he explained.

HIGH-COST FRONTIERS

"Of greater concern is that oil companies are taking a view of what oil price will be in the future and what price levels are

needed in a high-cost environment like West of Shetland," Mr MacChesney said.

The Norwegian deepwater frontier faces similar costs. **Statoil** contracted 2 semi-submersibles during late 1998 and early 1999 for its Asgard Field. Those units spent about 1,100 hours waiting on weather, compared to some 4,500 hours operating, according to Statoil Vice Pres-



Utilization plunge ahead? Offshore rig utilization in the North Sea has fallen from nearly 100% to around 80%, and contractors are bracing for even tougher times later this year. Utilization for floaters could fall to 50%, and jackups are also likely to fare poorly, contractors say. Above is the Sedco Forex semi-Sovereign Explorer, the first to drill year-round West of Shetland.

ident-Drilling and Well Technology **Mads Grinrød**.

"The impact on cost is tremendous and it clearly limits the number of fields that can be developed by mobile units," Mr Grinrød said, speaking at the 1999 IADC Directors and General Membership Conference, held in Amsterdam during March. "And if they can't be developed by mobile units, they can't be developed at all."

Rig moves are another concern in harsh environments, he said.

Norway, Mr Grinrød said, faces its own

special challenges, even among harsh-environment arenas. First, he said, wave periods are generally larger in the Norwegian Sector of the North Sea. In addition, temperatures in the Norwegian North Sea and the Norwegian and Barents Seas are extreme.

"Very few rigs today can meet the conditions that exist in the winter in the Barents Sea, where the temperature falls below the freezing point," he said.

IS BIGGER BETTER?

Mr Grinrød notes that drilling contractors and operators have thus far sought to address the challenges of deep water and harsh environments by designing ever-larger rigs. However, size may have its limits.

"The tendency today is to think bigger is better," he said. "But we have to ask, are we pricing ourselves out of business?"

Most reserves, he points out, lie in areas more easily accessible than in the North Sea and Northwest Europe.

"We need to take a very close look at our costs," he said.

GREAT POTENTIAL

Still, the North Sea blends great potential and teems with development plans. **John Westwood** of **Douglas-Westwood Associates** points out that offshore Northwest Europe accounts for fully 16% of the 104 B boe of the global offshore reserves being considered for development. In comparison, North America, one of the fair-haired children in the burgeoning deepwater segment, accounts for just 6% of total reserves. The comparison narrows when it comes to deepwater, however: Northwest Europe accounts for 17% and North America for 18% of potential deepwater reserves being considered for development, according to data prepared by **In-**

field Systems.

Mr Westwood, speaking at the 1999 Offshore Technology Conference, cautioned that he was not forecasting, but simply presenting projects that are being considered for development. He noted wryly, though, that, "In the past 12 months, the most attractive deepwater area has been Wall Street." And since it still is, he observed, deepwater development will continue to forge ahead.

Favorable tax regimes, especially in the UK and Ireland, as well as political stability are additional attractions, he said. Mr Westwood noted that tax rates in the UK and Ireland on offshore development are some 22% and 25%, respectively.

NEGATIVES

But operators must contend with some substantial negatives—depletion; decreasing discovery size; high costs, especially in the harsh environment, deepwater frontier. BP, for example, has stated that the UK Sector is depleting at 15% per year. As for declining fields sizes, discoveries in the Norwegian Sector now average some 60 MM bbl. 20 years ago, they were 10 times that size. Costs are also high. As an example, Mr Westwood cited a TLP capable of producing 180,000 bbl/day. In West Africa and the Gulf of Mexico, he said, such a facility would require 45,000 tons and 66,000 tons displacement, respectively. West of Shetland, though, that balloons to 106,000 tons.

Further, existing offshore fields in the UK Sector have cost an average of \$12/bbl to develop. This rises to \$13/bbl, if unsuc-

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**—John Westwood,
Douglas-Westwood Associates**

cessful exploration wells are taken into account.

"In just the 5 years from 1993," Mr Westwood said, "costs fell by 33%—a remarkable achievement. But for the sector to have a future on the world stage, it is necessary to reduce costs to below \$8 and eventually to \$6."

EXPLORATION DECLINE

Exploration drilling in the UKCS declined 23% during 1998, with 7 discover-

ies announced with flow tests exceeding 15 MMscf/day or 1,000 bbl/day, according to the **UK Department of Trade and Industry's** report "Development of the Oil and Gas Resources of the United Kingdom 1999". In addition exploration and appraisal spending during the year fell 36% compared to 1997—to £0.8 billion, according to the annual study, informally dubbed the "Brown Book". In addition E&A well starts fell from 96 to 80. Excluding sidetracks, the figure is even more stark: from 82 to 59.

Ironically, the decline in well starts reflects both extremes of the E&P roller coaster, according to DTI. Initially, well starts were slowed by high rig rates. Later in the year, low oil prices stymied work.

A DTI survey uncovered even glummer results. The agency asked operators to assign to each of their potential E&A wells a probability that the well would actually be drilled. On this basis, DTI estimates that operators expect to drill just 27 E&A wells in 1999 and 32 in 2000, compared to 59 in 1998 and 82 in '97. ■