GOM Explored

JACKUP FLEET TRENDS

Joseph Triepke | Director of Data Services | jtriepke@rigzone.com

Although positive signs are emerging in the GOM jackup market with backlog building and the contracted rig count hovering almost 30% above the bottom this summer, a full recovery remains on the horizon as 18 units are currently marketed in the region without contracts. Currently, 24 jackups are contracted in the region, thus ready utilization stands just under 60%. In order to put the stabilization of this market in context, we will be taking a closer look at the breakdown of utilization and the major continuing shift in GOM jackup fleet composition.

Historical Context for the GOM Jackup Fleet's Evolution

Exodus is perhaps the best single word to describe the GOM jackup market over the last several years. In fact, total supply today is less than half of 2001 levels with only 73 jackups in the region compared to over 150 units in 2001. Today, the GOM jackup market is home to 10-15% of global jackup supply and demand compared to 40-45% of global jackup supply and demand in 2001.

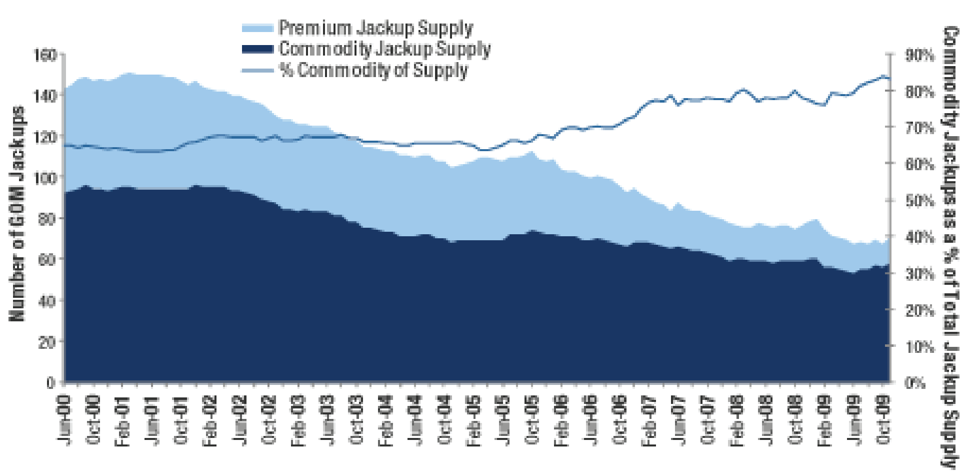
While this decline is partially attributable to hurricane losses (around ten jackups have been wiped out of the GOM fleet in recent storms), the lion's share of the drop off has been due to the strength in international jackup demand in recent years which lured higher spec jackups out of the region. Attracted by requirements from NOCs and IOCs in regions like the Middle East, Latin America and Southeast Asia, drilling contractors aggressively bid premium jackups overseas, sometimes scoring multi-rig package deals. Migration resulted in longer contract terms and higher dayrates for departing units than opportunities in the spot oriented GOM jackup market could provide.

In general, international opportunities for GOM jackups over the last several years (outside of Mexico) have been largely limited to independent leg cantilever (IC) units with water depth capabilities of 250 ft. or more. Premium jackups, which we define as independent leg cantilever (IC) units capable of operating in water depths of at least 300 ft., account for the vast majority of the departures. As most of the GOM commodity jackups (defined as mat supported units, slot units and ICs less than 300 ft.) are mat supported, their international appeal is limited as mat units are only functional in areas with an even seabed.

Supply and Demand Effects

The percentage of commodity units in the GOM has grown materially as the overall fleet size has declined with the departure of premium jackups. The chart below shows the decline in supply as well as the evolving composition of premium vs. commodity units - a trend that becomes particularly noticeable from late-2005 to present.

GOM JACKUP SUPPLY COMPOSITION



TODAY, OVER 80% OF THE JACKUPS IN THE REGION ARE COMMODITY UNITS COMPARED TO AROUND 60% IN 2001.

Source: RigLogix

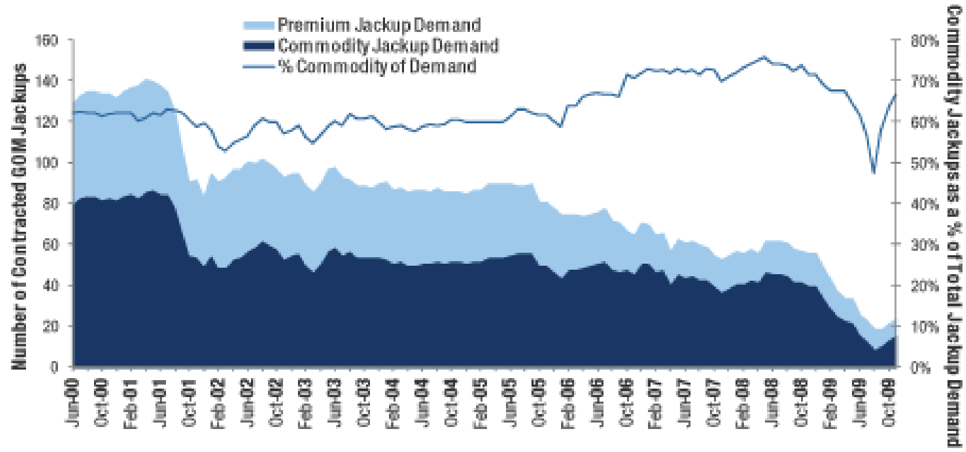
Looking at demand, the evolution of the GOM rig fleet has become a defining factor in fluctuations in the contracted GOM jackup rig count. In 2004, commodity jackups accounted for 50-60% of the contracted GOM jackup rig count, but from 2006 on, these units have generally accounted for 65-70% of contracted units. Peeling back the onion a bit further reveals that mat supported jackups recently comprised over 50% total the GOM jackup rig count compared to just 30% in 2004.

Commodity jackup work in the GOM is often short term by nature; thus, total utilization for GOM commodity jackups has historically been more volatile (and lower) than utilization for premium units, which are often contracted for slightly longer-term jobs. In the recent downturn, commodity jackup utilization dipped below 20% while premium utilization declined to a much lesser extent and held in the mid-60% range. However, in the ongoing stabilization phase, commodity jackup utilization and rig count have almost doubled while premium utilization has continued to decline. Thus, an improvement in commodity jackup demand has driven the pickup in the GOM rig count from the bottom.

Historically, commodity jackups have accounted for almost all of the cold stacking activity in the GOM, and today, this fact remains unchanged. Currently, only one of the 30 cold stacked jackups in the GOM is a premium unit. Of the 29 cold stacked commodity jackups, 26 are mat supported. The ready stacked ranks are also dominated by commodity jackups as shown in the table to the right.

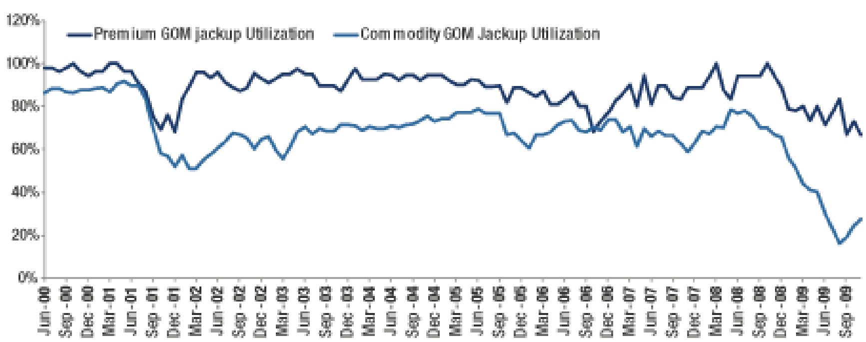
In reaction to the 2008-2009 downturn and widespread demand weakness, drilling contractors have aggressively cold stacked GOM jackups in an effort to reduce costs. Nearly three times as many GOM jackups are cold stacked

GOM JACKUP CONTRACTED RIG COUNT COMPOSITION



Source: RigLogix

TOTAL UTILIZATION – PREMIUM VS. COMMODITY GOM JACKUPS

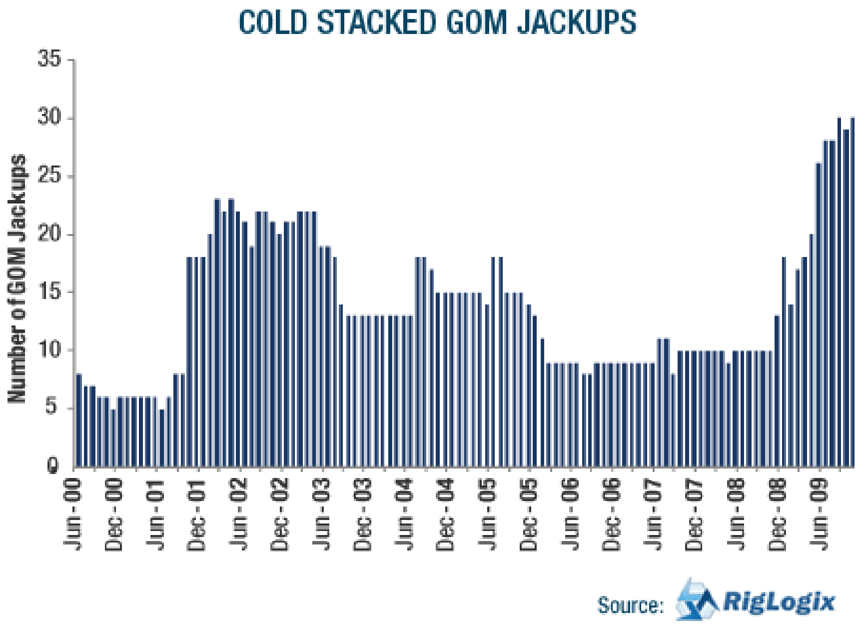


Source: RigLogix

CURRENT SNAPSHOT OF GOM JACKUP SUPPLY AND DEMAND BY RIG SUB TYPE

GOM Jackups	Premium		Commodity								
	IC 300' + WD	IC 300' WD	IC 250' WD	IC < 250' WD	IS 300' + WD	IS 300' WD	IS < 250' WD	MC 200' + WD	MC < 200' WD	MS 200' + WD	Total
Total Demand	7	3	2	1	1	-	-	6	2	2	24
Uncontracted Supply											
Ready Stacked Count	-	1	-	2	1	1	-	5	4	4	18
Cold Stacked Count	-	1	1	-	-	1	1	12	8	6	30
Other Uncontracted Units	-	-	1	-	-	-	-	-	-	-	1
Total Supply	7	5	4	3	2	2	1	23	14	12	73
Total Utilization	100%	60%	50%	33%	50%	0%	0%	26%	14%	17%	33%
Ready Utilization	100%	75%	100%	33%	50%	0%	0%	55%	33%	33%	57%

Source: RigLogix



today as compared to year ago levels. Currently, cold stacked units make up about 40% of GOM jackup supply, far higher than at any point this decade. Although drilling contractors have discussed possible reactivations in the future for some of these units, it is likely that some of the more marginal commodity jackups that have been cold stacked will never return to active duty.

Commodity Jackups Likely to Continue to Define GOM Jackup Market Direction

Although the bid activity levels and the fundamental outlook for the GOM jackup market are clearly improved today compared to three to six months ago, the supply overhang of commodity jackups remains a significant concern for drilling contractors active in the region.

A key variable to monitor in 2010 will be the ultimate direction taken by PEMEX with regard to their shallow water drilling plans in Mexico. In a recent pre-tender meeting, PEMEX discussed requirements focused on premium jackups. With several mat supported units rolling off contracts soon in Mexico, the likely destination for these commodity jackups will be U.S. waters if PEMEX decides not to extend their contracts.

Couple a potential migration of some commodity units into the GOM with the fact that several premium jackups in the GOM are currently bidding for international work, and it seems likely that commodity jackups will continue to dictate jackup activity levels in the region for the foreseeable future.

Looking into the crystal ball, forecasts prepared by the RigOutlook team call for the jackup rig count in the Gulf of Mexico (including both U.S. and Mexican waters) to remain consistent with current levels in the 53-58 unit range until around 4Q2010. Beginning in October 2010, the RigOutlook forecast calls for the rig count in the region to grow and exit the year around 74 units. Much of this growth is expected to come from the U.S. side of the GOM, where higher levels of jackup demand are expected. Further rig count increases are forecasted for the region in 2011. ■