



## Of rigs and pipelines

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A year ago the perception of a problem with oil supply was much less evident than today. While Saudi Arabia had a plan to increase production, it was using only some 30-odd drilling rigs, and the debate over its capabilities was not being widely discussed. Now that Aramco has committed to an increased level of production, they have also had to increase their drilling fleet to a target of around 100 rigs. (From [Baker Hughes](#) it is currently about 46 onshore and 6 offshore ). Because drilling rigs are made of special steels and require some sophistication in manufacture they are built in only a few places, and there is a growing lead-time on getting a new one. Thus demand for existing rigs is high, and rental costs are going up. This is impacting the US supply. Platts has just [noted](#) that since other places are now offering longer-term rentals, the US market is beginning to lose out.

"It's a very serious problem," said McNease, adding that he expected 15-20 Gulf of Mexico jack-ups to move elsewhere by the end of next year, based on contract negotiations already under way. Of those on his migration list, McNease said seven would likely depart by this summer.

"Rigs will continue to leave the Gulf of Mexico unless people offer longer contracts," said McNease, noting that jack-ups could now command terms of two to five years in the Middle East. "The national oil companies are offering longer terms to lure these rigs there," he said.

McNease is the CEO of Rowan, and he noted that rig shortages would likely continue through the next two years. He was mainly addressing the shallow off-shore jack-up rigs of which he said there were 80 in the Middle Eastern Gulf, and 85 in the GOMEX, with some 55 currently in construction. I explained why these numbers are important in an earlier [post](#).

It is in the deeper waters, however, that the major new finds are being made. [Rigzone](#) notes

Another indicator of deepwater activity is the recent rig count. In mid-March, there were 42 rigs drilling or working on development wells in deepwater, including ten rigs drilling in 5,000 feet of water or greater - the ultra-deepwater zone. One year ago, 6 drilling rigs were in ultra-deepwater.

The result has been that there were 10 new oil and gas discoveries in the Gulf last year. Of these, the [Knotty Head discovery](#) has now been drilled a second time, allowing a better sense of the size

and shape of the oilfield. It turns out to be a bit smaller than originally anticipated, but with 400 - 600 ft of oil-bearing rock (the pay) depending on where the well is, it is still estimated to hold 200 - 500 million barrels of oil. (For those techno-nerds you might note that the second well was less than a mile from the first, and there was some 200 ft less pay at the second well, showing how rapidly the cap rock is apparently sloping down to limit the size of the field). Unfortunately the Statoil Uranus project in the [Barents Sea](#) was less successful, finding no producible hydrocarbons. And so on to [Edvarda](#).

And returning to Saudi Arabia, the [Haradh project](#) was officially inaugurated on Wednesday, bringing 300,000 bbl of new oil supply and 0.14 bcf of natural gas.

Across the world, while President Putin has agreed to install a new gas line to China from the Eastern Siberia, there has been no agreement yet to build a new oil line, though a study is now going [to happen](#). The thought does bubble up that perhaps that supply might not be so assured, given domestic demands and the low rate at which oil production is now rising.

It was unclear which fields in Russia the Rosneft-CNPC oil venture would operate. Bogdanchikov said the venture would bid for licenses on the market and would have access to several exploration licenses held by Rosneft.

Apparently, however, the same vagueness holds true for the gas line

For example, little detail is available on the specifics of the plans to build the two gas pipelines that, Putin said, will feed China with up to 80 billion cubic meters of natural gas per year. It remains undecided which Russian gas fields would supply China's high demand and where the roughly \$10 billion needed to construct the pipeline would come from.

They may be competing with Europe and the US since

Gazprom plans to start production at the \$15 billion Shtokman project, which is to produce liquefied natural gas from shelf reserves in the Barents Sea, by 2010. By that time, Gazprom hopes to make operational the planned \$4.75 billion North European Pipeline to carry gas directly to Germany.

though the gas is more likely to come from [Eastern Siberia](#) and not start until 2011. [Rosneft](#) has some resources available, and I posted recently about the [Kovytkha field](#). For the gas it appears that Rosneft [got the nod](#) though the argument is somewhat moot, since the two companies are set to [merge](#). However, as the [BBC](#) suggest, there is a possible conflict looming over the oil, since Japan would also like to buy Russian oil.

If a deal goes ahead with Beijing, the pipeline will bring 600,000 barrels of oil daily from eastern Siberia to north-eastern China. Moscow's energy minister told Russian news agency, Tass, that the link to China could be constructed before the end of 2008. Russia's oil supplies, though plentiful, are not inexhaustible and building a Japanese and a Chinese pipeline is not a likely option, our correspondent says.

The BBC story also has a map.



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