



All Together Now

WHEN THE MARKET DROPPED, A DRILLER CALLED ON US FOR AN INDEPENDENT TAKE ON WHETHER MOTHBALLING ITS NEW RIG WAS THE RIGHT CALL.



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"The rig's almost new and she's en route to a lay-up location," the voice on the line said. "We need a view on our preservation arrangements and reactivation time. I know you guys do this."

The voice belonged to the COO of one of our drilling contractor clients, and the vessel in question was a newish ultra-deepwater drillship. The rig's contract had been terminated just one year in and, with no new work on the horizon, our client had decided to cold stack it. The lay-up and preservation work was complete and the rig was en route to its final cold-stacking destination.

It's not uncommon. Since the oil price crash, many virtually new and state-of-the-art rigs have been mothballed long before their time. With no new drilling work to move on to, drillers are forced to stack rigs that then gather rust for indeterminable lengths of time. Ripples from these actions are felt across the industry. As long as the drilling rig sector as a whole remains in turmoil, the banks and investors who financed the builds can be left feeling nervous.

They're often cautious about decisions being made that could affect repayments and returns on investments: when rigs are cold stacked, even more so.

In this case, our client was confident its decision was right but their financiers felt less secure. When rigs are shuttered, the preservation strategy is vital; the longer the equipment is idle, the more expensive it is to bring back out of retirement.

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The banks were looking for independent reassurance that the asset would be preserved in good condition, concerned about its future marketability if it wasn't able to return to service within a workable time frame.

The rig's arrival at location was looming, so we immediately dispatched one of our advisors to investigate the preservation measures our client had taken, verify the actions on the rig and—with specialist support from our wider team—take a view on reactivating time.

So what?

During challenging times such as these, most decisions are driven by a desire or necessity to reduce costs. Cold-stacking rigs when they come off contract is the most effective way of minimizing the day-to-day costs of rigs without contracts. Especially when the industry itself cannot see the rig market tightening any time soon.

However, this case illustrates the importance of recognising that everyone involved needs to feel secure about the decisions being taken. Obtaining an independent view is an efficient, low-conflict way of keeping everyone onside. A rigorous appraisal either ensures confidence in the measures being put in place, or can identify additional measures that will achieve consensus.

Here, confidence was bolstered and the financiers were reassured of the rationale behind the decision. Though third-party appraisals may identify additional actions, they serve to dispel stakeholder fears. An independent view can not only make sure that the asset is preserved with the minimum reactivation time, it can also safeguard precious business relationships.