‘There may be a shift from shallow water to deepwater rigs in future’

Sandeep Menezes, **Tuesday, August 31, 2010, 10:40 Hrs [IST]**

— Naresh Kumar, Managing Director, Jindal Drilling & Industries Ltd

Jindal Drilling & Industries Ltd, headquartered in New Delhi, is a part of **D.P. Jindal Group** and provides offshore drilling and allied services to the entire oil and gas industry. **Naresh Kumar** outlines the scenario of onland and offshore rigs and E&P activity in India in this interview with **Sandeep Menezes.**

The Centre has approved a three year rig holiday for oil explorers as a severe severe shortage of offshore drilling rigs has delayed output schedules.
The three-year rig moratorium came in the backdrop of a sudden spur in E&P activity due to high crude prices during 2007-08. Deep water rigs suddenly were in shortage due to high demand world over. Indian oil and gas operators that were bound as per PSC to finish their minimum work programmes in specified period were unable to hire rigs due to unavailability and skyrocketing prices which appreciated by up to 250 per cent.

The 30 blocks (ONGC 16, Reliance 13 & ENI 1), which have been granted the rig moratorium now, will be a bit relieved to complete their pending work programmes.

However, the situation of deep water rig scarcity has totally reversed now. Firstly, the economic slowdown due to financial crisis and then the US GOM drilling ban have released many deep water rigs in the market. Also, as many as 40 newly-built deep water rigs have entered in the market since 2007 to 2009 making the supply more abundant. It has put tremendous pressure on rates as well.

The average per day rate for jack-up rigs in India has dropped by nearly 15 per cent since December 2009. With the US government announcing a freeze on offshore drilling projects for six months due to the BP oil spill, do you foresee a further fall in rates?
The average jack-up day rates, which were around $75,000 per day in December 2009, have fallen further to around $63,000 per day due to overcapacity buildup. Economic slowdown made many rigs working around India free and the country being more over insulated from economic slowdown, at least in E&P activities, became an attractive market for all the contractors worldwide, resulting in oversupply of jack up rigs.

The US GOM ban on deepwater drilling won't harm day rates of jack-up rigs but it certainly will impact deepwater rigs. If the drilling ban continues, deepwater rates will certainly go down further.

India currently has the most land rigs in any country outside of North America and the fourth largest fleet of offshore rigs. Going forward, what will be the demand for rigs?
Even during economic slowdown, India was sustaining demand for rigs while most other countries were struggling to carry out exploration and development work. Decreasing utilisation of rigs in other countries badly impacted day rate in India due to oversupply and it headed downward sharply.

Most of the current land rigs deployed in India now are with ONGC for long-term projects. In recent years more deepwater and onland blocks are being awarded than shallow water blocks.

Also, many private companies came into picture in recent NELP rounds. It will create incremental demand with short-term jobs with these private companies for offshore and onland rigs. There might also be a shift from shallow water to deepwater rigs in the coming years.

India is the third largest consumer of oil in Asia Pacific. In production, however, only a small part of the

total 3.14 million sq. km of India's sedimentary basin has been explored so far.

Only 20 per cent of the total sedimentary basin is well explored in India so far. If you go through the history of Indian oil and gas exploration since independence, only NOCs were working till the year 1990. During that period ONGC added prolific fields like Mumbai High which boosted India's production.

In early 1990s government opened the sector for private operators/joint ventures tooperate some small producing fields. It was through NELP rounds in year 1997 that government opened the market for overseas investors with investment friendly policies.

So the extensive efforts in exploration are just over 13 years old. In these years, India has awarded more than 230 blocks and has established around 9.34 bbbl of O+OEG in 68 discoveries. Around 65 per cent of the total sedimentary basin is under exploration as well. This shows that we are heading in the right direction now.

India's total refining capacity is expected to grow from 182.09 million tpa currently to 240.96 million tpa by end of the 11th Plan. How does the future capacity addition scenario look to you?

India is already surplus in terms of production of refining products. In 2009-10, only India's consumption was around 140 million tpa which leaves us with around 40 million tpa of refined products to export. Further, the capacity is increasing to 240.96 million tpa. Some of this capacity will be utilised as demand increases and the rest will be exported.

There are no new projects in the near future and we can expect expansion only from the installed refineries in the form of debottlenecking in some of the capacity. Also, upgradation will be the focus for most of the old refineries.

The demand for oil and gas is likely to increase from 186.54 mmtoe in 2009-10 to 233.58 mmtoe in 2011-12. Do you see domestic demand driving capacity expansion?

India imports more than 75 per cent of its requirement. Last year, RIL D-6 and Cairn's Rajasthan fields came into production, which, even on their full capacity utilisation, might only improve India's import figures slightly, as demand is growing rapidly and some of the old fields are depleting very fast. So whatever capacity is added remains short of total demand which will ultimately make the country explore new frontiers to expand its capacity.

We also foresee a surge in demand for pipeline production with the additional discoveries of oilfields by Reliance and the multi-city gas distribution projects.

What are your long-term plans?

We are currently going through restructuring. We are looking at de-merging our core businesses keeping our long-term strategy in mind. Going further, we want to concentrate on our individual business and diversify the risk elements. We certainly are looking to include more services under our umbrella through joint venture or collaboration.

The immediate priority is to enter into deepwater drilling segment now. Also, all other services required in offshore arena are being worked on.