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Offshore Supply Vessel Update

By Susanne Pagano

Rising day rates and high utilization of the Gulf of Mexico's supply vessel market are putting fizz back into the support services market. A strong spurt in drilling activities offshore Texas and Louisiana and a longer than usual construction market has increased demand for supply boats and helped push day rates to the \$2,700-\$2,900 per day range. Some vessel owners have been a little more lucky and able to command rates of \$3,000 and higher per day for a typical 180' supply boat with liquid mud carrying capabilities.

The strong demand is expected to continue for another month or two then likely will drop off over the winter months. Day rates also are expected to adjust to the upcoming seasonal downturn.

The supply boat market has been picking up steam since early summer. During peak summer activity with virtually no boats available for charter, rates hit the \$2,400-\$2,500 level, then slowly moved to the \$2,700 benchmark. The rates were a significant improvement of the average rates of \$1,850-\$1,950 in April. Demand for boats was so strong in July and August that at least several drilling programs were temporarily delayed until a boat was available to provide support services. Market analysts even heard whispers about several boat owners talking about the possibility of building new boats, especially special purpose vessels to perhaps support deepwater drilling and production.

But day rates would have to be in the mid-\$3,000 per day range or higher to justify new construction costs. Vessel owners would require long-term charters before a boat would be built. In the last newbuilding cycle, too many financial institutions and yards lost millions. of dollars, a scenario that won't be repeated. Today a specialized workboat would cost upwards of \$10-12 million.

Crewboats and utility boats in the Gulf of Mexico also are busy these days, with high utilization and surprisingly good day rates. Rates, of course, are dependent on the size of the boat and length of the charter.

Despite the positive market indicators, a cautious mood is evident among workboat owners. Crude oil prices remain an uncertainty.

But apparently some individuals are bullish enough about the market to get their feet wet. One new venture has emerged this fall. Golden Anchor, headed by J. Michael Jones, is expected to purchase six 180'supply boats from the U.S. Maritime Administration. The company offered \$10.250 million for the six foreclosed supply vessels formerly owned by Leam Transportation.

The sale is still pending, but MARAD has approved the sale and is confident that a closing will happen in the near future. Jones will put the boats to work in the Gulf of Mexico.

MARAD has sales pending on several other supply boats at this time. Several boats may be sold to another government agency and approval for the sale of the 220' "OCEAN TARPON" and "OCEAN RAY" for non-oil patch use is expected the end of November. Since the "Exxon Valdez" accident, some interest has surfaced in use of aging oilfield service boats as oil spill response boats.

This fall MARAD has about 42 boats, excluding the ex-Leam vessels. The agency holds title to about 20 of the vessels and is foreclosing on the others. Ultimately, all the vessels will be sold over the next several years and MARAD is trying to place as many boats as possible into alternate markets.

In early November, Nicor Inc. signed a letter of intent to sell Nicor Marine Inc. to SCF Transportation Inc., a New York-based private investor group, for cash. The agreement calls for the purchaser to secure financing commitments in early November and to close the sale in mid-December.

Nicor said the sale would result in a modest "book gain" for Nicor. Terms of the agreement were not disclosed. SCF has indicated that they expect all members of the Nicor Marine management team to remain with the company.

Nicor owns a fleet of 40 supply vessels, of which about 28 boats are based in the Gulf of Mexico. Four of the Gulf boats are chartered. Nicor also has three special purpose boats in the Gulf and four boats working in Nigeria. Nicor has been shopping for a buyer for some time. Nicor's domestic operations are based in Morgan City, LA.

Nicor recently refitted the "BIG ORANGE 25", one of its project vessels. The supply boat is now the first unit in the Gulf of Mexico equipped with a dynamic positioning system that enables the vessel to hold its position alongside a floating platform tethered to the Gulf floor. The vessel has begun an assignment as lead supply boat for Conoco's tension-leg well platform (TLWP) in Green Canyon Block 184 offshore Louisiana. The TLWP was installed this summer in 1,762' waters.

About the time the Nicor sale was announced, Maritime Capital Corp. of New Orleans purchased the marine portfolio of Equilease Corp., of Hampton, NH. The transaction involved the purchase of notes, mortgages and charters of about 95 vessels and the purchase of 22 vessels that Equilease previously acquired through foreclosure proceedings. The vessels mostly work in the Gulf of Mexico and the inland waterways. Although terms of the transaction were not disclosed, Maritime Capital said the fair market value of the assets included in the marine portfolio is approximately \$37 million.

Maritime Capital said that if market conditions continue to improve to the point that new construction is justified, it plans to develop strategic alliances with financial institutions to provide capital to the industry.

Ocean Drilling & Exploration Co. (ODECO), a 61% owned subsidiary of Murphy Oil of El Dorado, AR, is separating its contract drilling business from its oil and gas diving businesses.

Murphy will keep ODECO's oil and gas interests, spinning off the offshore drilling side to fend for itself as an independent company. Apparently lost in the shuffle is Subsea International, ODECO's diving subsidiary, however, one report indicates that McDermott International is very interested in the diving company.

Meanwhile, several other mergers/buyouts involving Gulf of Mexico supply boats are rumored at the moment. Some of these deals are expected to emerge by year-end.

Ensco Marine, based in Broussard, LA, has added two supply vessels to its domestic supply boat fleet which now totals 16 units. Ensco purchased two 160' boats from Eastern Marine in Panama City, Florida. The vessels, the "GULF STREAM I" and "GULF STREAM II", were lengthened to 180' units and are now working in the Gulf of Mexico. Ensco has renamed the vessels to "ENSCO CRUISER" and "ENSCO TRANSPORT". Terms were not disclosed.

A number of Gulf Coast supply and tug/supply vessels that have been employed in the Exxon Valdez clean-up are enroute back to the Gulf. 5750HP "GOLIATH" is presently towing the 358' x 82' newsprint barge "NOOTKA CARRIER", earlier purchased by McAllister Towing, from Tacoma, WA to Gulfport, MS.

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