

# THE NEW NORMAL – OR THE CALM BEFORE THE STORM?

Deep sea oil drillers are more optimistic than they've been since the oil prices first tumbled in 2014. According to Morgan Stanley explorers are expected to boost spending 45% to USD188 billion by 2022, whilst major oil trading houses are predicting the return of USD100 crude. Rig reactivations will need to be managed carefully to avoid a sharp increase in incidents.

When oil prices fell below USD40 per barrel in 2015, from a high of over USD100 in 2014, the industry was effectively forced into dramatic cost cutting measures. Some 2,000 rigs were cold stacked, warm (or sometimes called hot) stacked or scrapped in 2015 and 2016 as the industry battled to survive the tough economic conditions.

A 55% reduction in the number of active rigs was just part of the story as firms did all they could to get back to a positive profit margin. Often called right sizing the measures have rejuvenated the workforce and brought the sector up to speed with other industries with the use of modern diagnostics to monitor equipment performance (and degradation) and allow support by a global network of experts in real time.

## **WARM OR COLD STACK RISKS**

Since the end of 2016 active rig numbers have started to increase, with 600 rigs coming back into service. Reports coming from some of the world's biggest owners of rigs suggest that inquiries are back to levels not seen since 2012.

Phil Poetter, Engineering Adjuster with Integra Technical Services suggests that "the choice of

whether to cold or warm stack was mostly defined by the drilling contractor's financial position and its outlook on fleet utilisation."

Common issues likely to be experienced after a period of deactivation include corrosion and degradation of the structure and mooring system, with Mobile Offshore Drilling Units (MODUs) laid up with complex drilling package machinery and electrical equipment impacted most after a period of non-activity. According to Phil "there is a track record of vessel reactivation in the marine space, from which best practices have been developed. Modern diagnostic equipment and the use of dehumidification and other measures that inhibit corrosion to the structure, machinery and electrical equipment to accelerate the reactivation phase, mitigate risks and contain costs."

## **INSURANCE MARKET CONTRIBUTION**

Phil explains "we've recently seen the focus on processes extend into the insurance market with the Joint Rig Committee updating its JRC Lay-up Warranty Endorsement (JR2018-007A) and the release of a corresponding JRC Reactivation Warranty Endorsement (JR2018-007B). This makes the Lay-up, Reactivation and Moorings Endorsement, Code of

Practice and Scope of Work bundle a seamless tool that provides market guidance for Underwriters and Brokers.”

Whilst these Endorsements were originally designed for MODUs there are sections that are equally applicable to reactivating land rigs. However, it's important to recognise that these are just guides and each rig will require its own unique reactivation plan.

### REMAINING DISCIPLINED

The earliest we will see the new Endorsements being applied is in Q1 and Q2 2019. It remains to be seen how broadly these will be applied, especially with the insurance market remaining competitive and claim levels relatively low. One note of caution though, it is highly likely that the rigs being reactivated in the first instance are newer generation with a higher commercial value and, therefore, are ones that were warm stacked.

Reactivating cold stacked floaters requires a greater investment and to make this feasible would require a sustained period of higher crude prices - as well as need an extremely positive outlook for longer term drilling contracts. Should the rig count increase to previous utilisation levels could we see older, cold stacked rigs being reactivated? These are more likely to have a higher failure rate potential, so could result in an increase in claims.

Phil suggests that “to best manage frequency of issues that might arise, a rig reactivation process requires a continued dialogue between insurance market participants and the involved engineering disciplines: Drilling Contractors, Class, Inspection Companies, Regulators and Marine Warranty Surveyors.”

### WARM AND COLD STACKING EXPLAINED

For those of you that are new to stacking, it can take two different forms:

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**Warm (or Hot) Stacking** involves keeping an active skeleton crew on the rig and conducting regular maintenance to ensure a smooth reactivation.

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**Cold Stacking** is the equivalent of mothballing a factory in manufacturing - rigs and equipment are packed up and stored.