ENSCO International Incorporated Q3 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

[Operator Instructions]. We'll take our first question from Pierre Conner at Capital One Southcoast. Please go ahead.

Pierre Conner - Capital One Southcoast

Good morning, gentlemen.

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

Hi, Pierre.

Pierre Conner - Capital One Southcoast

Dan, first question relates to your leadoff commentary about use of free cash flow and I sense some emphasis in your voice on the stock repurchase program aggressive to date on the new program. Anymore to say relative to that program being opportunistic or will it be systematic in terms of just a certain set amount as you progress through the remainder of the quarter?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

Well, Pierre, as we told you all before, year-to-date we've done this on a very systematic basis, but that doesn't rule out that we wouldn't be optimistic, but right now the plans are to continue to do it on a systematic basis.

Pierre Conner - Capital One Southcoast

Systematically repurchasing? Okay. On to markets. Congratulations on getting the rig with PEMEX. Good step, I think. And your perspective, there's a wide range of comments on what that ultimate incremental need is, what do you think, over the course of '08, the incremental needs are for rigs into Mexico?

William S. Chadwick, Jr. - Chief Operating Officer and Executive Vice President

Pierre, this is Bill. I'm not sure. PEMEX tells us that they need additional rigs. We believe that they'd be tendering now except for some budgetary issues that they have. It is our understanding that those probably won't be resolved until December when they'll come out with their next round of tenders. I think we can realistically expect a minimum of something on the order of five additional jackups going into Mexico next year and maybe as many as twice that.

Pierre Conner - Capital One Southcoast

Okay. That's helpful. One more maybe for Jay and then I know some other people are in line. Lots of the fleet status reports indicates number of the contracts with cost adjustment for costs, rate adjustment for cost escalation, do you have a feel for the percentage of the fleet that's set up that way now, Jay? We talked about the 70% plus that's contracted in '08, what percent is being protected?

Jay W. Swent - Senior Vice President and Chief Financial Officer

Yes. I think the way to look at it, Pierre, obviously in the Gulf of Mexico we don't have cost adjustment, but if you look at the international markets, it's probably in the range of 75% that have some form of cost adjustment which can be anywhere from 100% pass through to partial pass through.

Pierre Conner - Capital One Southcoast

Okay. And I'm assuming that -- of course, the 7500 and 8500 Series are set up that way as well?

Jay W. Swent - Senior Vice President and Chief Financial Officer

Absolutely.

Pierre Conner - Capital One Southcoast

Yeah, great. I know there are lot of other people on the line, I will cycle back if we don't get to it at all. Thank you gentlemen.

Jay W. Swent - Senior Vice President and Chief Financial Officer

Thanks Pierre.

Operator

And we'll take our next question from Ben Dell at Bernstein.

Ben Dell - Bernstein

Hi guys. My first question is really on the North Sea. You mentioned it was tight, but at the same time, you're moving a rig out at the 50,000 drop in day rate. I was just wondering if you can you explain how those two things tie together and also let us know whether the mobilization costs are included in that move?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

No. I think you need to read this carefully. ENSCO 85 is taking a job in substitution of ENSCO 100 while it's under tow so, that was a short-term deal with the same customers at the 255 rate. So that's not a drop in rate it is actually an increase in rate from the 190s to the low 200s. So, the 255 rate is kind of a short-term thing while -- since ENSCO 100 was late getting to that market.

Ben Dell - Bernstein

Okay. And then Asia, we are obviously seeing the transition rig stacked and there is a rig about to roll off in Brunei. I was wondering if you could give us comments on that rig market or do you think that is a specific transition issue with that rig or just a broader market issue?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

Well, just jumping back to your last question because I don't think I closed the loop on that. While we see the market being very tight in the North Sea, why are we moving something down to Tunisia. We're very -- there's a lot of activity in Tunisia and we wanted to strategically get down in that market. We already have ENSCO 105 down there and that gives us a much more cost effective operation to get two rigs down there. So, just a closed loop on that. On Southeast Asia, yes, there are two rigs that are out there. I think you probably ought to talk to those particular operators as to what their circumstances are. But it's my understanding as of this morning both of those rigs have contracts.

Ben Dell - Bernstein

Okay, and you talked before about the rate of attrition in rigs being sort of a big driver in terms of taking supply off the market in '08 and '09. Clearly that's not something -- you're not taking rigs off the market. Do you have a feel for who we should be looking at in terms of rig attrition and rig removals?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

I don't think we mentioned rig attrition or rig removal in any of our comments can you clarify.

Ben Dell - Bernstein

Historically, you've mentioned about levels of rig attrition going out into '08 and '09. I'm just wondering if you see that in '08 or whether you believe most rigs are going to stay on the market?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

Well, I think what we've said in the past is that rigs come out of the fleet due to accidents and, unfortunately, we just saw one yesterday. So I don't think we've ever said that people will take rigs off the market, and particularly at today's day rates, everybody is going to work any rig that they can work as long as it can be physically made to work. So, I don't think we would anticipate in this kind of market that anybody would withhold rigs from the market, but we do anticipate, because history supports it, that there will be attrition through losses, mechanical failures, or some kind of other events.

Ben Dell - Bernstein

Great. Thank you.

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

Sure.

Operator

And we'll take our next question from Colin Jerry at Raymond James.

Colin Jerry - Raymond James

Hi, guys. Good morning.

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

Good morning.

Colin Jerry - Raymond James

Quick question. Obviously, you are all moving into the Mexican market a little bit with the recent PEMEX contract. Just -- as you look at that market, how many tenders are out there right now?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

There are none outstanding as we speak.

Colin Jerry - Raymond James

Okay, and I ask because word around the campfire is that they're seeing a little bit of a pushback in some of the bureaucracy or red tape that goes on between PEMEX and the national government that you're not really going to see too many tenders come to market in the first half of '08 as maybe some people were expecting. Is that -- do you have any visibility on that?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

Let me have Bill talk to that.

William S. Chadwick, Jr. - Chief Operating Officer and Executive Vice President

That's not our understanding. There have not been any tenders in the last couple of months. We understand that's due to some budgetary issues within PEMEX, some of which have been well publicized. It is our expectation and understanding that they will tender for additional rigs when their new budget is approved near to the end of this year.

Colin Jerry - Raymond James

Okay. Okay. And then switching gears to the overall cost side. Obviously, you all have been probably the best at keeping or maintaining pretty high margins and keeping costs in check. As you look across the kind of geographic landscape and you gave us a pretty good idea of what you're seeing on demand, how do you see -- in different regions, how do you see costs playing out over the long-term, over the next one to two years? And are there any markets where you see that being more of a threat than others?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

Well, I think some of the issues cut across all markets. Certainly repair and maintenance cost is largely driven by third party activity and spare parts and things which are all under a tremendous amount of inflationary pressure at the moment. In terms of labor which, as you know for most operators, is at least 50% of operating expense. I think it remains to be seen how '08 shapes up.

Right now there's lots of rigs stacked in the Gulf of Mexico and so it remains to be seen sort of how much wage pressure there will be there in '08. I think we expect a fair amount of pressure in our Asia Pacific and Europe markets in the coming years, and certainly with the new build rigs that are accruing up. There's a tremendous amount of competition for labor and we have new build operators sort of prepared to pay whatever it takes to attract people to come over and join them. So, that's going to be the issue I think all of us have to fight during '08 and '09.

Colin Jerry - Raymond James

So it's really across the Board. You don't see particular regions popping out?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

Right. No.

Colin Jerry - Raymond James

And then last question, yesterday NOV mentioned on they're call they're seeing a lot of demand actually from the national oil companies, as far as ordering new rigs and new equipment and so forth. Is this a trend that we should keep our eye on? How do you see this playing out and kind of where are we in that overall ordering cycle for them, just any visibility there.

William S. Chadwick, Jr. - Chief Operating Officer and Executive Vice President

Well, we are monitoring deliveries of our orders very closely and issues crop up from time to time, but thus far all of those have been manageable. In terms of the national oil companies, yes, in the current situation, you're seeing a few more national oil companies get into the rig building and owning arena. Historically, the major operators from time to time have done that. All the major international operating companies have owned rigs in the past and all of them have migrated away from that in the current date. I don't know what the experience of the national oil companies will be, but just because they decide to own a rig and feel like they want to operate one during one particular market cycle to me is not an indication they'll still be doing that 10 years from now.

Colin Jerry - Raymond James

Okay. Appreciate the help. Thanks a lot.

Operator

And we'll take our next question from Robin Shoemaker of Bear Stearns.

Robin Shoemaker - Bear Stearns

Yes. Thanks. In your comments of different markets you mentioned fairly significant increase in rigs needed in the Middle East, and I wonder -- I think those are not exactly tenders yet, but -- or the way you described it. When would you expect to see tenders and how do you -- how are you seeing the influence of the 30 or so new builds that will be coming out in '08 for tenders in some of these international markets in the Eastern Hemisphere? When you're bidding in existing rig against a new build? Are you seeing that in a major way with each new tender?

Paul Mars - President of ENESCO Offshore International

Can I answer that? On your question there in the Middle East there are tenders out at the moment for nine rigs.

Robin Shoemaker - Bear Stearns

Okay.

Paul Mars - President of ENESCO Offshore International

They're existing tenders. With respect to the new build rigs, if all of the work materializes that we know about, and I think we've said this before, then the rigs that are coming out of the shipyard will be absorbed into the market. Now, it won't necessarily all be in the Southeast Asia market. Some of these rigs will migrate into West Africa, some into the Middle East, and what we're seeing is a stagnation in day rate at this point in time. It's not a decrease, but the day rates are not increasing as they were. So, we're seeing a stagnation in day rate and we expect that to continue until these rigs are absorbed into the market.

Robin Shoemaker - Bear Stearns

Yes. Okay. Just one other question then. I think in -- Dan in your comments you mentioned outlook for an improving Gulf of Mexico in '08 from current levels. What do you see, in terms of your discussions with customers, that might make the Gulf of Mexico a little bit better in '08? Of course, rig departures we know about. But on the pure demand size do you see some room for optimism?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

Let me -- it is Bill's area so I will let him respond to that.

William S. Chadwick, Jr. - Chief Operating Officer and Executive Vice President

What we're seeing right now is historically an extreme low level of activity and there are a number of reasons for that, most of which have been discussed. One of the specifics Dan mentioned in his remark, we see Exxon making preparations to return to jackup operations in the Gulf of Mexico. In talking to some of our other customers, some of these consolidations have now had time to gel and people have had time to come up with comprehensive drilling programs on a purely cyclical basis. We're at the tail end of hurricane season and we are approaching the beginning of a new budget year, both of which will help. I think what we expect to see is a return to a more normal level of activity in the Gulf of Mexico as opposed to the abnormally low level we're experiencing right now.

Robin Shoemaker - Bear Stearns

Okay. But you weren't tying it to the outlook for a somewhat of an improvement to necessarily to a higher gas price or expectation of commodity, fixed shift and commodity change?

William S. Chadwick, Jr. - Chief Operating Officer and Executive Vice President

No. That sure wouldn't hurt.

Robin Shoemaker - Bear Stearns

Of course, it wouldn't hurt. Alright. Thank you.

Operator

We'll go next to Arun Jayaram of Credit Suisse.

Arun Jayaram - Credit Suisse

Good morning, guys.

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

Good morning.

Arun Jayaram - Credit Suisse

I was wondering if you could elaborate on what you're seeing in the Saudi Arabian rig market, another key strategic partner. You got four rigs working for Aramco and I believe they're -- they've tendered for four rigs. Just wondering if you could comment on what type of equipment they're looking for and which, if any, ENSCO rigs have your bid into this tender?

William S. Chadwick, Jr. - Chief Operating Officer and Executive Vice President

Paul just got back from there this weekend, so I will let him answer.

Paul Mars - President of ENESCO Offshore International

Yes. I was over in Saudi just last week and at the moment they've got an outstanding tender for three rigs. They've also told us that they fully expect to take on a further two rigs in the early part of 2008. They may take them from this existing tender or they may re-tender for the following two rigs.

Arun Jayaram - Credit Suisse

And what type of equipment are they looking for?

Paul Mars - President of ENESCO Offshore International

They're looking for a spread of it. They're drilling for oil and they're also drilling for deep high pressure gas. So, out of those five rigs, there would be three drilling for oil, which is your 250-foot rig, and two for gas, which is your bigger 116C class rigs and above.

Robin Shoemaker - Bear Stearns

And have you bid yet into this, Paul?

Paul Mars - President of ENESCO Offshore International

Yes, we have. We've bid three rigs into that market, two of which are from the Gulf of Mexico.

Arun Jayaram - Credit Suisse

And the commercial tenders were open last weekend?

Paul Mars - President of ENESCO Offshore International

It was opened on Sunday. We expect a decision on at least three rigs by the middle of November.

Arun Jayaram - Credit Suisse

Could you just comment, Paul, on what other opportunities you're bidding some of your Gulf of Mexico jackups into, near-term?

Paul Mars - President of ENESCO Offshore International

We're bidding them, apart from Mexico, Bill already mentioned, we're bidding them into the Mediterranean. We see a lot of opportunity now developing in the Mediterranean and there are three outstanding tenders at the moment that we currently bid on.

Arun Jayaram - Credit Suisse

Okay.

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

There is currently a tender outstanding with Petrobras for a, what was it? 150-foot rig? That will be likely a 250-foot or above rig that will meet the technical specs. There are additional opportunities down in Venezuela and then PEMEX.

Arun Jayaram - Credit Suisse

Okay. A final question is on the ENSCO 93 upgrade project. What is going to be the cost to upgrade that for future international work and just trying to get a proxy for the 82SDC what it's going to cost you to internationalize those rigs?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

The cost of the 93 will be between $45 million and $50 million.

Paul Mars - President of ENESCO Offshore International

And think, Arun, a point to keep in mind there is there is some life extension work that we're doing; that's not just the cost of an international upgrade for that rig.

William S. Chadwick, Jr. - Chief Operating Officer and Executive Vice President

No. That is vast majority is an extension.

Arun Jayaram - Credit Suisse

What would be the cost for another rig? The 250?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

Something in the $15 million to $20 million range.

Arun Jayaram - Credit Suisse

Okay. Thanks a lot, gentlemen.

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

Yes. Just on that note, we did have 83 in the shipyard last year and it's fully kitted for international service.

Operator

And we'll take our next question from Geoff Kieburtz at Citigroup.

Geoff Kieburtz - Citigroup
Good morning.
Daniel W. Rabun - Chairman, President, and Chief Executive Officer
Hi, Geoff.
Geoff Kieburtz - Citigroup
Couple of questions. You mentioned that there was expected to be a significant decline in shipyard days next year. Could you quantify that yet?
Daniel W. Rabun - Chairman, President, and Chief Executive Officer
Yes, Geoff. Really, next year all we have on the plate is finishing out 93, which is, I think, about 45 days down from the 430. 46 down from 430 this year.
Geoff Kieburtz - Citigroup
So that's it?
William S. Chadwick, Jr. - Chief Operating Officer and Executive Vice President
That doesn't mean we won't be in a shipyard. We'll certainly be going in doing inspections and routine minor maintenance. So, there will be days in shipyards. But shipyard days, as we usually discuss them, are for major work being done on rigs in shipyards.
Geoff Kieburtz - Citigroup
Okay. Just a discussion there on the Saudi Arabian bids. Did I understand you to say that this was a public bid opening and, if so, can you share with us the rates?
Daniel W. Rabun - Chairman, President, and Chief Executive Officer
They don't do like PEMEX does, which is a public forum. There's is not public. Nobody knows what those tenders are.
Geoff Kieburtz - Citigroup
Okay. Yesterday National Oil Well made the projection, let's say, that there would be a new jackup ordered for every one delivered over the next 12 to 18 months.
William S. Chadwick, Jr. - Chief Operating Officer and Executive Vice President
Did you expect me to say anything else?
Geoff Kieburtz - Citigroup
Well, no. My question wasn't so much whether you agreed or not. If that were, in fact, to be true, how would you envision that impacting day rates?
William S. Chadwick, Jr. - Chief Operating Officer and Executive Vice President
I've never heard that from anybody other than Pete. I'm not sure I would agree with it.
Geoff Kieburtz - Citigroup
You know the shipyard guys think that might happen too, but that --
William S. Chadwick, Jr. - Chief Operating Officer and Executive Vice President
I suspect they'd want to say that as well. I think you need to look at the facts. The level of jackup orders has really slowed down tremendously. From a year ago levels, there are very few that have been ordered. So --
Geoff Kieburtz - Citigroup
I recognize it's a hypothetical, or at least a one person's view but would we all be relatively safe in assuming if that in fact happened, we would see rates begin to decline. Is the market -- I mean, it's balanced now, right? You were saying that the rates have stabilized.
William S. Chadwick, Jr. - Chief Operating Officer and Executive Vice President
If you're asking a hypothetical question, if people are hypothetically going to build the same number of rigs that exist, then hypothetically there's a heck a lot of demand for drilling. I just don't see it.
Geoff Kieburtz - Citigroup

Okay. All right. And then last question. I may be wrong on this, but I understand that you've classed your 8500 Series rigs as non-self-propelled. Is that correct?

William S. Chadwick, Jr. - Chief Operating Officer and Executive Vice President

Correct.

Geoff Kieburtz - Citigroup

And what does that mean as a practical matter?

William S. Chadwick, Jr. - Chief Operating Officer and Executive Vice President

You know, the ENSCO 7500, which is being operating since the year 2000, is classed the same way. As a practical matter, it means that when we make moves longer than field moves of a very nominal distance then we have to be towed. We're not a vessel that proceeds under its own power. But the other implication of that is we are not required to have on Board full marine crews as a self-propelled vessel would do during all of the periods of time in which we're conducting drilling operations. So, it's part of the cost effective aspect of that 7500 and 8500 design rig that is an intended measure we take to try and be more cost efficient during the vast majority of the vessel's time when it is not moving but it is actually drilling.

Geoff Kieburtz - Citigroup

Can you give us a sense of what kind of cost reduction that allows you?

William S. Chadwick, Jr. - Chief Operating Officer and Executive Vice President

Off the top of my head, I can't. It's a reduction in licensed marine personnel. And off the top of my head I could not give you a number.

Geoff Kieburtz - Citigroup

Okay. Well, thanks very much.

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

I think if you go to our website and look at the presentation we gave in Singapore a few months ago; you'll get some of that information.

Operator

And we'll take our next question from Judson Bailey at Jefferies.

Judson Bailey - Jefferies & Co.

Thank you, good morning. Question or follow-up question on the North Sea commentary earlier and actually ties into the Mediterranean. Dan or Paul, could you guess maybe how many jackups could potentially leave the North Sea to go and find work in the Mediterranean? And then second part of that question is, if the incremental demand in the net is that strong, if you're getting bids from, say, the Gulf of Mexico or other parts of the world, wouldn't a North Sea jackup be much more competitive, given obviously the mop [ph] costs would be significantly less or should we expect the incremental demand in the Med to largely be met from North Sea rigs? Or is that possible?

Paul Mars - President of ENESCO Offshore International

I think the incremental demand will be met from wherever the rigs are available at the time to meet the requirement. From what we see at the moment, there is an outstanding tender for three rigs. We know of a possibility of a fourth rig into the Mediterranean. We also are hearing rumors of a rig from North Sea relocating to Angola, one of the heavy duty rigs there. There is also a possibility for two rigs and, again, that would be from the North Sea into the Barents Sea. So you could see migration of four to five rigs out of the North Sea in 2008.

Judson Bailey - Jefferies & Co.

Okay. That's helpful. Second question is on the share buybacks. Dan, if we look over the last couple of quarters, you've basically kind of kept your cash balance in the neighborhood of $620 million.

Going forward, is it reasonable to assume if you don't want to build cash that we could kind of maybe factor in share buybacks that would kind of keep you close to that level?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

That wouldn't be a bad assumption Jud.

Judson Bailey - Jefferies & Co.

Okay, great, thank you.

Operator

And we will take our next question from Roger Read at Natexis Bleichroeder.

Roger Read - Natexis Bleichroeder

Good morning, gentlemen.

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

Hey Roger.

Roger Read - Natexis Bleichroeder

Back to your comments on the Gulf of Mexico seeing some of the companies that have been absent coming back into the market. Is that pretty much you believe conventional drilling in the shelf or is this a little bit maybe of an uptick in the deep shelf programs?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

I think both. Yes. We've definitely seen an uptick in both.

Roger Read - Natexis Bleichroeder

Okay. And then unrelated follow-up, on the operating cost assumptions 2008 versus 2007, and I apologize because I missed the very beginning of the call if you said something about it, is it still reasonable to assume a low to mid-teens sort of operating cost assumption at this point, inflation assumption?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

I'm sorry for '08. That's in the right range.

Roger Read - Natexis Bleichroeder

Okay. Alright, thank you.

Operator

And we'll go next to Alan Laws at Merrill Lynch.

Alan Laws - Merrill Lynch

Good morning. My first question is on the international. You've outlined at best sort of a balanced global market given new rigs on the come. Can you maybe comment on your expectations for day rates in the international market and maybe term opportunities? We ask this because we haven't really seen leading edge rates move for most of the year, and the new contract terms have shrunk considerably, and want to know what your thoughts about this dynamic is?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

I think Paul said in his earlier remarks that the -- the -- the rates have, I guess the word he used was stagnated. One thing I'd point out, in our portfolio of assets in the last six months, we've had nothing but upticks in our new contracts. It's clearly not accelerating at the rates it did say 18 months ago. We've still been able to manage to uptick.

Paul Mars - President of ENESCO Offshore International

Just to add to that, if you look at the website, you'll see the latest fixtures on ENSCO 51 and ENSCO 67 are considerably higher than what they were previously.

Alan Laws - Merrill Lynch

Yes. We've seen them roll onto new contracts that were within the umbrella of the leading edge rates, but just wondering. So, generally, you're seeing the rates sort of top out here, but what about the term side of this?

Paul Mars - President of ENESCO Offshore International

Particularly in Southeast Asia, we're seeing some term work and some short-term work. And I think at this point in time and it's historical that what usually happens is the operating companies go through their budget process, it's kind of a lean time for prospects. As soon as they get the budgets fixed, then we're expecting to see an uptake in the amount of prospects, both long-term and short-term.

Alan Laws - Merrill Lynch

All right. That's even with the rigs coming in. A lot of them are being built in that region.

Paul Mars - President of ENESCO Offshore International

Correct.

Alan Laws - Merrill Lynch

All right. Another question I have was on the Gulf of Mexico. Going to ask the, we asked this to Diamond just an hour or so ago and they told us to actually ask you. So, here it goes. Given the softness in the Gulf of Mexico market and, I think we counted about 17 warm stacked units, the rigs coming into the global market which we think limits relocation potential, what would keep the rates from heading to the cash break even level over the next year if demands were to stay where it is today? We've already dropped over 40%, what's going to keep it this time or this cycle from happening?

William S. Chadwick, Jr. - Chief Operating Officer and Executive Vice President

There are two things that will keep that from happening. One is a migration or continued migration of rigs out of that market to other more lucrative markets. And the other thing is an increase in activity in the Gulf of Mexico, both of which I think are going to occur.

Alan Laws - Merrill Lynch

17 is a lot of rigs though to take up on a basis given the present gas price environment.

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

Yeah, but a lot of them are lower end rigs, Alan.

Alan Laws - Merrill Lynch

Sure. Just as another fall on to that, how much of a relocation are you willing to absorb to get the rigs out of the Gulf? The mold and the upgrade or -- ?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

I think that is pretty fact specific for a job. You have to evaluate each one individually. Kind of generalize about that.

Alan Laws - Merrill Lynch

All right. But even your recent relocation to Mexico you bid a rig, like a bigger 350 on a 300 project. Is that a strategy just to get them out of the Gulf?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

No. I think your need to look at that pretty carefully. When we looked at that tender, yes, it was for a 300-foot rig. We didn't have a 300-foot rig that we could tender that was available. So, we had to look in our portfolio of assets in the Gulf of Mexico and decide what rig was the best rig to bid for that job. The rig that we bid was the rig that would get us the best economic return, i.e., required the least amount of work to get it ready for the job. We didn't have a 300-foot rig that could have addressed that job.

Alan Laws - Merrill Lynch

Okay. Good. Thanks. I appreciate it. Actually, one more. If [indiscernible] 60,000 a day in the Gulf, do you think this is the floor for them then?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

Ask the Diamond guy.

Alan Laws - Merrill Lynch

All right. I've leave it at that. Thank you, guys.

Operator

And we'll go next to Waqar Syed at Tristone Capital.

Waqar Syed - Tristone Capital

Hi, gentleman. You may have answered this question, but on ENSCO 8500 in the press release today it was mentioned that it's going to start up late '08 and then in the fleet status it was indicated third quarter, are you not thinking it's going to be pushed back to like fourth quarter or late fourth quarter or are you still thinking it could be in the third quarter?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

Well it is going to -- it'll come out of the shipyard in the middle of the year and then it takes a long time to get mobilized over here. It's -- I forget what we got in the budget for the year. There's no pushback on the dates. Waqar?

Waqar Syed - Tristone Capital

Yes. There's no -- I thought. Okay. Initially I think in the fleet status it indicated that it was coming in second quarter and then start up in third quarter. But the commentary in the press release was late 2008. So I thought maybe there's additional pushback. But you're saying no pushback there. It could still be modeling third quarter then startup.

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

It's a matter of semantics. There's no change.

Waqar Syed - Tristone Capital

There's no change. Okay, thanks.

Operator

And we'll take our next question from Byron Pope at Tudor Pickering.

Dan Pickering - Tudor Pickering

Hi, it is Dan Pickering for Byron Pope here. I was hoping that you guys could maybe just help us understand the Saudi market as we compare it to the Gulf of Mexico market. It sounds like that's a target area. When we think about cash costs, cash taxes, things like that, how do the two markets compare?

William S. Chadwick, Jr. - Chief Operating Officer and Executive Vice President

The Gulf of Mexico versus Saudi?

Dan Pickering - Tudor Pickering

Yes. I'm just trying to figure out so I can equivocate day rates if and when you guys were to be successful in Saudi?

William S. Chadwick, Jr. - Chief Operating Officer and Executive Vice President

The differences between the markets at the moment, in Saudi you can get long term contracts of about three years at a day rate of more than twice of what you can get in the Gulf of Mexico. Operating costs are relatively compatible.

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

They're actually pretty comparable. Cost structure.

Dan Pickering - Tudor Pickering

Okay. So cost structure all in including tax rate, etc.

Paul Mars - President of ENESCO Offshore International

Yes, yes.

Dan Pickering - Tudor Pickering

Okay, alright, that is helpful. And then, as we think about the Gulf of Mexico sort of follow on to Alan's question, strategically for ENSCO as you look at this market versus the international market, if the demand was there, would you move every rig out of the Gulf of Mexico if you could? Or is there strategic benefit to being involved here?

William S. Chadwick, Jr. - Chief Operating Officer and Executive Vice President

You know, the Gulf of Mexico is one of the world's major offshore drilling markets and we like to be in all of them. So, yes, there is some strategic benefit to being in the Gulf of Mexico. Now, that having been said, over the long-term I think we'll redeploy these assets wherever they generate the best returns in the long run. What we're seeing at the moment if one instant in time is the worst market condition we've seen in the Gulf of Mexico for quite some time. So, some balance will return. If the Gulf of Mexico were to continue at present levels of activity, we might consider moving all the rigs out of there, but we don't expect that to happen.

Dan Pickering - Tudor Pickering

And are there any assets in the Gulf of Mexico today that could not be moved out?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

No.

Dan Pickering - Tudor Pickering

So, physically, they could all move.

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

Yes.

Dan Pickering - Tudor Pickering

Okay. Thanks, guys

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

Anthony, we have time for probably one more question.

Operator

And that final question will come from Thomas Curran at Wachovia Securities.

Thomas Curran - Wachovia Securities

Good morning, guys. Paul, I just want to return to the North Sea and explore that status of that market in a little bit more detail. It feels like we've been hearing for a while now that that market was in equilibrium. And we have seen day rates, leading edge rates basically remain flat there. You're now indicating that up to four to five jackups could leave and yet it doesn't sound as if the operators in the North Sea are moving in any way to prevent that. I'm just wondering why you think that it is, if again, you haven't seen any downturn in demand there.

Paul Mars - President of ENESCO Offshore International

We haven't seen any downturn in demand and what we're actually seeing from quarter two onward is an increase in demand. Now, again, historically, sometimes quarter four and quarter one in the North Sea people don't want to commence projects because it is in the wintertime and there may be potentially a lot of waiting on weather. So, we think some of the projects that we're seeing in Q2 and beyond are all because of that. The other thing you've got to look at is the increase in gas price in the North Sea. That's gone from less than $4 to $7.5 in a period of three to four months. So, as soon as that starts to continue going forward, then we are going to -- we think we're going to see an increase in demand. But the North Sea is no different from the Gulf. If you look at the number of rigs that's left the Gulf of Mexico, there's not a lot of operators that have done anything about it to try and prevent that. I think you're just seeing the same in the North Sea. They're going to wait and see what happens. If these three to four rigs do migrate out of the North Sea, then there is not going to be enough rigs there to fulfill demand in Q2 and beyond.

Thomas Curran - Wachovia Securities

I guess, with the analogy you just drew, you touched upon my major concern when it comes to the North Sea and that is we heard from the industry for several quarters straight that there was a looming and seemingly growing deficit on the horizon for the Gulf of Mexico and no one could understand why operators weren't moving to prevent continued departures and we've now come to learn that it was because demand remained in secular decline. Given BP's announcement about plans to cut their North Sea work force by 400 people or 300, I am just wondering, do you have any concerns that we could now be seeing a similar situation arise in the North Sea given its maturity?

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

To simply answer your questions, no.

Thomas Curran - Wachovia Securities

Okay. Alright, thanks, guys. I'll turn it back.

Daniel W. Rabun - Chairman, President, and Chief Executive Officer

Thanks. We would like to close by just thanking everyone for joining us today. We look forward to talking with you again Tuesday, February 26, 2008, when we review our fourth quarter and full year 2007 earnings. Thank you again.

Operator

This does conclude today's presentation. We thank everyone for their participation. You may disconnect your lines at any time. Have a nice day.