Activity and utilization rebound, US fleet contracts

DRILLING ACTIVITY JUMPED in the past year and the number of rigs in the US fleet dropped slightly.

The result was a boost in rig utilization to 74.3%, an increase of 22 percentage points from a year earlier.

Those are findings of the 48th annual **Reed-Hycalog** Rig Census presented at the 2000 IADC Annual Meeting 27-29 Sept in Houston.

The count of active rigs jumped 41%, the largest year-to-year increase in the history of the census.

The Reed-Hycalog Census counts a rig as active if it has "turned to the right" any time during a defined 45-day period (this year's period was between May 6 and June 19). Therefore, the Reed-Hycalog count is higher than other rig counts.

"What a difference a year makes," said **John Deane**, President, Reed-Hycalog, in introducing and explaining this year's Rig Census.

Even the record increase in activity doesn't reflect the summer surge, said Deane, because this year's Census was taken in the May/June time period. "If the Census were taken today, utilization rates would likely be at 80% or higher," he said.

John Deane

Deane forecasts active rigs to rise another 20% in the year ahead, reaching about 1,450 by the time of next year's census. Rig availability will be unchanged, he predicts, and the utilization rate will be close to 90%.

CENSUS HIGHLIGHTS

Here are other key statistics from the latest Census:

• The US rig fleet lost a net 8 units in the 2000 Census, reaching a new low of 1,636;

• Forty of the 82 rigs deleted this year were removed because a large capital expenditure was required to put them back to work; 26 were reported as either destroyed or cannibalized for parts;

• Almost half of the 74 rigs added in this year's census were assembled from components; 5 offshore units and one land rig were reported as newly manufactured;

• Rigs meeting the census definition of "active" rebounded from last year's 860 to 1,215;

• Industry consolidation continues, as owners of more than 20 rigs now control 57.8% of the available fleet;

• Day work contracts account for 65% of all drilling contracts.

THE OUTLOOK

Higher commodity prices have brought improved activity levels. In the survey of contractors done in conjunction with the Rig Census, contractors said 58% of their stacked rigs have a greater than 50% chance of going back to work in the next 12 months.

They said they are bidding jobs with all but 2% of the available fleet.

Reed-Hycalog predicts that activity will rise again in 2001, although not as much as during the past year.

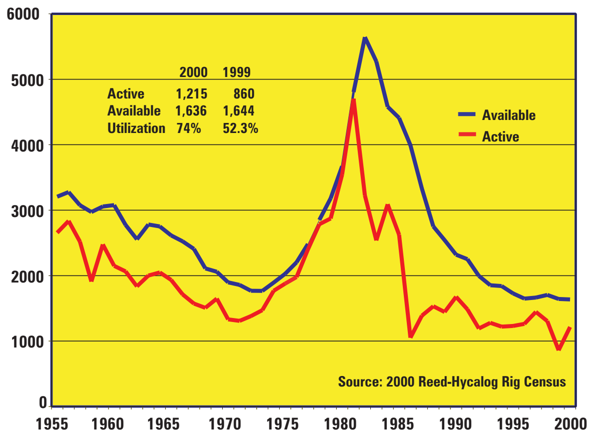
Available rigs will generally stay at this year's level as increased demand is satisfied by rigs that are currently stacked and the demand-supply ratio will further improve over this year's level.

Reed-Hycalog anticipates an active rig count of 1,275 units, causing utilization to climb to 78%.

The survey of contractors reveals that most contractors now feel that the hardest times are behind the industry and they are cautiously optimistic as long as product prices are sustained.

When questioned about their plans for the next 5 years, contractors were generally optimistic, but mixed in their responses. About 56% have plans to expand their fleets; 28% are looking for merger opportunities. Of those surveyed, 22% said they are exploring international opportunities.

Available vs active rigs in the US



RIG DELETIONS

Eighty-two rigs were deleted from the US fleet this year.

Previously, Census rules excluded rigs from the available count that required a capital expenditure of over $100,000 for land rigs and $1 million for offshore rigs to be put back to work.

In 1999, Census rules were clarified to exclude drill pipe from these monetary limits.

Rig owners reported another 40 units requiring significant capital expenditure this year, similar to last year's 46 rigs. Rig owners said that during the next year, 11% of available units are scheduled for capital improvements, versus 5% in the last Census.

This increase is an indication of industry optimism as well as the need to hold together an aging rig fleet.

Rigs auctioned for parts or cannibalized decreased after a year of particularly heavy attrition.

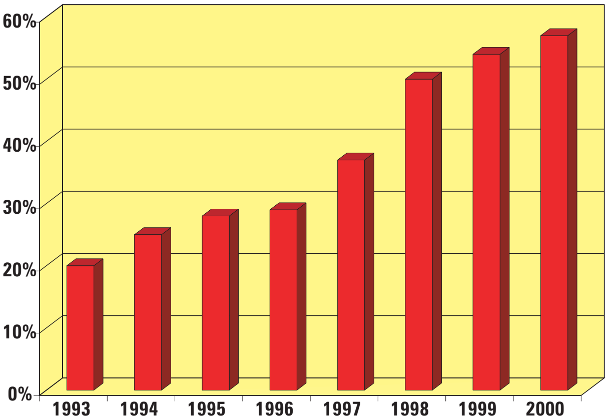
Many of last year's cannibalized rigs are being resurrected in this year's census as rigs assembled from components.

This year, 24 units were scrapped, compared with 41 in 1999.

The number of rigs deleted from the Census because they were stacked for more than three years was up to 12 this year. These 12 (out of the 17 rigs stacked more than two years in last year's count) were removed from this year's Census because of inactivity, while five were reactivated.

Just two rigs were dropped from the available count in 1999.

Share of US fleet owned by contractors with 20+ rigs



Source: 2000 Reed-Hycalog Rig Census

Owners reported two rigs destroyed during the past year, sustaining fire damage beyond repair.

The Census determined that seven rigs moved out of the US this year while 12 moved in for a net increase of five units.

RIG ADDITIONS

Seventy-four rigs were added to the US fleet in 2000, according to the Census.

Units assembled from components numbered 34 this year, up from 9 last year.

This indicates that the supply of rigs previously deleted was not exhausted by cannibalization, as previously thought. Twenty-two rigs were reactivated this year, versus 18 in 1999. And twelve rigs were brought into the US during the 2000 census.

Six offshore units came from the North Sea, three from Africa, two from Mexico and one from an unknown origin.

Five new offshore rigs and one new land unit were added to the fleet this year, the majority as a result of plans made before commodity prices bottomed out and then recovered. All of the offshore rigs were built for work in the Gulf of Mexico. The new land rig is presently working in Louisiana.

Including 2000, 19 brand new rigs have been built during the past three years, indicating an optimism not seen in the prior 10 years when the average number of rigs added per year was 1.3 units.

ACTIVITY BOOST

The 2000 active count of 1,215 by the Census was a 41% gain over 1999. All regions except Alaska reported more rigs working than a year ago. Increases were as follows: Gulf Coast (+77), Permian Basin (+61), Southeast States (+51), Ark-LaTex (+48), Southern Rockies (+47), Mid-Continent (+32), California (+29), Northeast States (+10), Northern Rockies (+2) and Alaska (-2).

The Census found that rigs stacked less than one year numbered 175; 1-2 years, 174; and 2-3 years, 72. A rig stacked for longer than three years is removed from the available fleet.

This year, day work contracts rose to 65% of all contracts, compared to 63% last year. Footage contracts are up this year just one percentage point to 26%; turnkey contracts are down three percentage points to 9%.

The percentage of wells targeting only gas was down two percentage points to 52%, while 17% drilled exclusively for oil and 31% targeted a combination of oil and gas.

Vertical wells accounted for 73% of all drilling, up three percentage points from last year. Deviated holes accounted for 21% of wells drilled, while 6% were horizontal wells.

RIG UTILIZATION

This year's utilization of 74.3% was very close to the level predicted in last year's Census. Last year's utilization of 52.3% was the lowest level since 1987.

Nine out of 10 US regions cited increases in utilization for 2000. The only region reporting a drop was Alaska, down to 25%, from 30% in 1999. California showed the greatest improvement, up 33 percentage points to 62%.

Utilization figures for other regions were as follows: Gulf Coast, 82% (+28 percentage points); Southern Rockies, 79% (+28); ArkLaTex, 82% (+26); Permian Basin, 74% (+26); Mid-Continent, 73% (+19); Southeast states, 76% (+18); and the Northern Rockies, 49% (+5).

Gross utilization was boosted to 73% for land rigs, up from 51% in 1999. This year's marine fleet utilization was 79%, up from 62%.

According to the Census, bottom supported and floating rigs were in greatest demand.

Utilization for these two types of rigs was 90% and 76%, respectively.

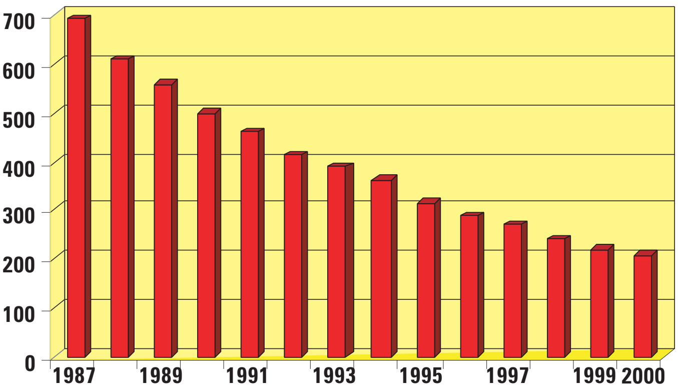
Inland barge utilization rose from 46% to 64%, while platform rig utilization climbed 18 percentage points to 60%.

The Census reported that rigs in every depth capacity showed utilization increases in 2000.

MORE CONSOLIDATION

"Consolidation continues to best describe the industry's dynamics in 2000," said Mr Deane.

Number of rig owners



Source: 2000 Reed-Hycalog Rig Census

For more than a decade, the number of rig owners counted in the census has been on the decline. The total number of rig owners dropped another 11 companies this year to 208.

Over the past year, 140 rigs changed ownership through mergers or acquisitions. The 140 units do not include rigs sold and subsequently scrapped for parts.

Contraction in the industry put even more units in the hands of larger fleet owners. Now, 57.8% of the fleet is controlled by companies that hold 20 or more rigs compared with 54% last year.

Only four years ago, large companies owned less than 30% of all units.

The average rig owner now holds 7.9 rigs in his fleet, up from 7.5 last year.

CONTRACTOR CONCERNS

The survey of contractors taken along with the rig census uncovered additional insight into the industry.

Thirty-two contractors from across the US chose to participate in this year's survey, representing about 15% of the drilling industry.

This year, "crew availability" was their highest concern, surpassing "rig rates," which had been the highest for the past two years.

An acute shortage of qualified labor now limits growth more than rig rates, as contractors try to put additional rigs back work. About 71% of contractors surveyed have an ongoing program in place to train additional crews.

"Rig rates" ranked second on the list of issues affecting contractors. "Availability of rig parts," "drill pipe replacement," and "aging of rig equipment," were the third, fourth, and fifth ranked issues of concern, respectively.

Most contractors had increased rig activity in 2000; almost all cited higher oil and gas prices as the reason for this increase.

Contractors seem relatively confident that commodity prices will remain stable. They expect rig activity for 2001 to increase another 27% on average.

Eighty percent of contractors reported higher rig rates than last year. According to survey data, land rig rates have averaged $6,657/day (excluding Alaska) during the past month (May-June, 2000), representing a 21% increase from day rates cited one year ago.

Offshore rates averaged $23,800/day. Contractors indicated this is almost a 75% increase over this time last year, although offshore data are not statistically significant due to sample size.

Most contractors plan to spend more on rig maintenance for 2000, up 14% on average; 74% cited increases in crew labor rates as well, with an average wage increase of 9%.

Last year, contractors estimated they could increase drilling 50% and 61%, respectively, if crews and capital were not a restriction.

This year, as expected, contractors reported less slack in the market, estimating only a possible 21% and 22% increase in capacity.