DRILLING CONTRACTOR

DRILLING AHEAD

Outlook for 2000 a mixed bag

Mike Killalea, Editor & Publisher

WELL, THE STARS portent a pick up in our beloved industry. Of course, on sundry other occasions in our checkered history, the meaning of "picking up" was that the repo men would "pick up" your boat one day and "pick up" your car the next. The consensus of several prestigious studies is that North America will be the bellwether market for 2000, spurred by a renaissance the capital expenditures of independent producers. However, major operators remain blasé over opportunities in the US, except for select areas such as the deepwater Gulf of Mexico.

Everything is relative, too. The large increases planned by independents are relative to the slashing cuts they made in '99. Explains **Victor Burke**, Managing Director of **Arthur Andersen's** energy industry services, "All E&P companies were hurt by the weak oil price environment from late 1997 through early 1999, but in general, the independents were hurt more than the majors and they reduced their capital spending in 1999 to a greater extent than the majors. Many independents have now decided to significantly ramp up exploration and development spending in response to improved prices. But both majors and independents are more cautious today."

RIG DEMAND

So while our high hopes have foundation in the data, every silver lining has a dark cloud. The iconoclastic **Tom Marsh** of the Houston-based firm **Offshore Data Services**, never the Pollyanna, summed up the situation neatly, saying, "Various signs to point to the *potential* for increased rig demand next year in some markets, but it is not an absolute certainty that the rig market will live up to that potential, despite some industry analysts' unflagging optimism about the rig market in 2000 and beyond. The likelihood of a significant increase in overall worldwide rig demand over the next 6 months seems remote. Beyond that time frame, it's crystal-ball territory."

The Arthur Andersen 1999-2000 US Oil and Gas Industry Outlook Survey tends to corroborate Mr Marsh's observations. Some 71% of Arthur Andersen's respondents anticipate no shortage of US offshore rigs in 2000, and 73% expect to have enough US onshore rigs.

Currently, Offshore Data Services reports that global MODU demand has risen about 7% above its the 406 August low. Increased utilization of US Gulf of Mexico jackups has produced this turnabout almost single-handedly, ODS says. Meanwhile, other markets, most worrisomely the North Sea, simply limp along.

Global Marine's SCORE study echoes these findings. For November, the worldwide SCORE increased 3.3% from October, but the increase for the GOM was nearly twice that at 6.2%.

North American land markets have also improved dramatically. Total US drilling activity is up more than 25%, compared to year-end '98, according to **Baker Hughes**. In Canada, the rig count has shot beyond the 400 mark, better than 70% above levels of a year ago.

Raymond-James reports that dayrates are finally increasing for land contractors, especially for deep rigs. However, the uptick in rates, on average 6%, is being offset by the necessity to boost wages in an increasingly tight labor market.

THE GOOD NEWS

The good news is that capital spending is poised to rise. The **Lehman Brothers** Original Exploration and Production Spending Survey (their name, not my modifier) found that the 320 oil and gas companies contacted plan an average 10.2% increase in worldwide E&P expenditures from 1999. Again the dark cloud, though: "This result is likely to be seen as disappointing by investors, as we believe that the consensus outlook is for a 15% rise in E&P expenditures for 2000."

Within North America, though, the outlook is far brighter, driven by natural-gas drilling, both in the US and Canada. Lehman Brothers reported that its survey of 215 independents on US E&P spending plans indicates a "robust" 22.5% increase. The very best news is for Canada. The

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CAPITAL WIRELINES

OSHA ergonomics standard blindsides business

Brian T Petty, Senior Vice President-Government Affairs

THE OCCUPATIONAL SAFETY and Health Administration (OSHA) dropped a bomb on the US business community with its long-deferred proposed "ergonomics" standard primarily designed to address alleged problems associated with repetitive motion injuries such as reported among computer keyboard users. **Congress** had effectively stymied the issuance of any such proposal until a study on the subject was completed by the **National Science Foundation**. That study hasn't yet been finished, but Congress so far failed to act in this session. OSHA seized the opportunity and published its proposal immediately after Congress recessed for its long Thanksgiving, Christmas, and New Year's holiday break. The proposal extends for hundreds of pages and relies on an even lengthier economic analysis which purports to justify the proposal. Thus, IADC and virtually the entire American business community has asked for an extension of time to digest the proposal. IADC's request set forth the following:

"The International Association of Drilling Contractors (IADC) has reviewed the Occupational Safety and Health Administration's (OSHA) agenda for public participation in the rulemaking process for the recently issued Proposed Ergonomics Standard, the index of the public docket on this subject on this subject, and various items in the docket. The timeframe for participation in the rulemaking is so short as to preclude effective participation and preparation by many interested parties, including IADC. OSHA has had over 10 years to prepare the document published in the "Federal Register" and to review the extensive literature on the subject as well as to prepare even more voluminous documents, such as the regulatory flexibility and economic impact analysis, which we have not yet even seen. Accordingly, IADC respectfully requests that the schedules for participation be extended for the initial comment period, and for the scheduled hearings, the post-hearing comment period and the post-hearing briefing, and that the start of the public hearings be postponed.

"We note with dismay that the record supporting the proposal is still incomplete in that substantive and substantial portions of the docket are not yet publicly available. In addition, the record and docket in this rulemaking is expected to be the largest substantive record *ever* submitted for OSHA's consideration. An adequate review of the docket simply cannot be completed between the publication date of the proposal and OSHA's deadline for public comment or the schedule for public hearings.

"The requested extension of time for the written comment period and the hearings is necessary to allow interested parties to prepare thorough and complete comments and to prepare for hearings based on the voluminous record OSHA has submitted to the docket. Moreover, economic studies must be conducted to offer reasoned and informed consideration and comment on OSHA's economic impact statement.

"This request is particularly urgent in light of the fact that OSHA is considering a proposed regulation which will affect not only IADC, but virtually every business in the nation. The American business community is entitled to a fair opportunity to review and comment not only on the collective substantive issues, but also on the potential impacts individually as well. IADC requests that the comment period be extended by 120 days, that the hearings be rescheduled to begin no earlier than 90 days after the close of the comment period, and that the post-hearing comment and post-hearing briefing periods be extended accordingly, to be closed no earlier than 60 days after the hearings are concluded."

EDITOR'S NOTE: *IADC urges all member companies to individually request an extension to the comment period for the proposed OSHA ergonomics rule. Information on how is available through IADC's home page, http://iadc.org. Or contact* ***Brian T Petty****, 1/202 293 0670 (brian.petty@iadc.org), or* ***Steve Kropla****, 1/281 578 7171 (steve.kropla@iadc.org).* ■

Lehman survey estimates that E&P spending there will rise 28%.

Similarly, Arthur Andersen found that 64% of oil and gas company executives surveyed plan to increase exploration spending in the US. This is more than double the 29% who planned increases in 1999. 67% expect higher spending on US development projects in 2000.

However, major oil companies continue their migration away from the US. Only 29% of majors plan higher spending for US exploration in 2000, compared to 77% of large independents and 66% of other independents.

"While the independents rank the US and Canada as the most attractive areas for exploration and development investment, the majors who responded to our survey rated West Africa and the Middle East ahead of the US," Mr Burke remarked.

Internationally, the outlook is for only marginal increases. According to Arthur Andersen, almost twice as may companies plan to increase exploration spending outside the US, (29% vs 16%). 30% say they will boost non-North American development project outlays. However, details Lehman Brothers, the increase only amounts to 5.7% above 1999's levels—themselves depressed. The analysts explained that declines by several megamajors—including **ExxonMobil**, **TotalFina**, **Elf**, **Statoil**, **Petronas** and **BP Amoco/ARCO**—offset "healthy gains" by **Petrobras**, **Conoco**, **Texaco**, **Occidental Petroleum** and **ENI**.

COMMODITY PRICES

Lehman Brothers say producers are basing their budgets on average prices of $19.25/bbl for West Texas Intermediate and $2.38/Mcf Henry Hub. The analyst firm itself is more bullish, forecasting $19.50 and $2.70 for oil and gas, respectively.

Arthur Andersen's respondents were likewise optimistic on prices. According to that survey, WTI will average $20/bbl in 2000-03. Henry Hub spot prices will average $2.50/Mcf in 2000-02, compared to a predicted $2.30/Mcf in last year's study.

However, a poll by **Reuters** indicates that prices will drop from about $22/bbl (for Brent crude) in the first quarter to some $18.42/bbl as curbs by OPEC and non-OPEC nations alike expire at the end of March.

That's hardly a crash, but the psychological impact on edgy producer planners could impact operations. After all, it's pretty plain that, while low oil prices mean low drilling activity, high oil prices don't necessarily spur a boom. ■