DRILLING CONTRACTOR

DRILLING AHEAD

E&P yo-yo moves back up string

Mike Killalea, Editor & Publisher

THE E&P YO-YO has evidently reversed course and begun moving back up the string. Oil prices have strengthened greatly in recent weeks. West Texas Intermediate hit a 19-month high on 30 June, for instance, soaring 85 cents to $19.29 at closing. The big jump was prompted by reports by the **US Department of Energy** and the **American Petroleum Institute** of falling oil inventories. By early July, we enjoyed even better news. August crude flirted with the $20 mark, rising as high as $19.99, then settling back to $19.78.

PRICE FORECASTS ZOOM

Analysts have reacted quickly, revising price forecasts upward and then revising the revisions even higher. The fundamentals seem increasingly to support the bullish outlook, analysts say. **Dain Rauscher Wessels**, for example, increased its oil and natural gas forecasts for '99 in mid-June, only to boost those estimates again in July. Currently, the DRW Energy Group predicts that oil prices will average $17.50 in the third quarter, then shoot to $18 in the fourth. DRW further increased its forecast for 2000 to $17.50 from $17.

The reasons for the show of strength are in large part the flip side of the phenomena that brought about the price collapse. First, and most important, **OPEC** has demonstrated nearly 90% compliance with its targeted cuts, according to the **International Energy Agency**.

Second, Asian economies appear to be recovering, though not nearly at the pace of the "Tiger Economy" days of the mid-1990s. Compared to the 4%-8% growth seen in '96, the last full non-crisis year, Asian economies are expected to expand by just 1%. Still, this is a vast improvement over the 3% decline they had suffered. **BP Amoco** Vice President and Chief Economist **Peter Davies** notes that current Asian economics "suggest a recovery rather than a surge".

Overall, world demand is on the rise. IEA in June increased its forecast for 1999 world oil demand to 75.1 MM bbl/day from 74.8 MM bbl/day. IEA goes on to estimate non-OPEC supply at 47.4 MM bbl/day. OPEC, therefore, needs to supply 27.7 MM bbl/day to meet demand.

BACK TO NORMAL

"If non-Iraq OPEC plus Mexico hold to their current production levels, this should result in enough of an inventory draw to restore global inventory to 'normal' by somewhere around year-end 1999," the DRW energy watchers deduce.

Further, the analysts project, if quotas held through 2000, global supply would fall 2 MM bbl/day short of meeting demand. Such a rosy scenario would present a tantalizing temptation to cheat.

Still, the outlook is heartening. "This allows plenty of room for compliance slippage, increased FSU and Iraqi output, and errors in the data", the analysts say.

BACK TO IRAQ

This is reassuring, in light of a UN report that Iraq will be able to increase its oil production by some 400,000 bbl/day by year-end, if it receives enough spare parts. As reported by **Reuters**, this would bring Iraq's total production to 3.0 MM bbl/day by the end of the year, 3.2 MM bbl/day by March 2000 and 3.5 MM bbl/day by late 2000. Currently, the Saddam-ized state produces 2.6 MM bbl/day.

However, Iraq's production goals are hamstrung by a shortage of supplies and services, including drilling fluids and sundry spare parts and equipment to refurbish its increasingly rickety pipeline and export systems.

Another entry on the plus side of the ledger is the decline in non-OPEC supply since the price debacle. For instance, Norwegian oil output declined to 2.80 MM bbl/day in May, down just a bit from April's 2.84 MM bbl/day. Non-OPEC member Norway had earlier announced its intention to cut its own production by 200,000 bbl/day, doing its part to shore up sagging prices.

NATURAL GAS

The outlook for natural gas is similarly rosy. DRW increased its **Henry Hub** forecast for the third quarter to $2.35, up $0.20 from the previous forecast of $2.15. Similarly, DRW calls for 4th quarter prices of $2.55, also up $0.20 from the earlier estimate of $2.35. For 2000, the analysts anticipate Henry Hub prices of $2.50. In June,

American Gas Association inventories fell to last year's level. However, inventories remain high compared to seasonal norms.

IS RIG SLUMP NEAR BOTTOM?

The evidence also indicates that the free fall in rig utilization may be nearing bottom, at least in the offshore sector. **Global Marine's** Summary of Current Offshore Rig Economics (SCORE) for May fell only 11.3% worldwide. While that's hardly enough to make us whoop for joy, consider that the previous SCORE represented a 25.3% decline. Worldwide, SCORE, the ratio of current dayrate to the dayrate that would justify new construction, averaged 26.0%.

The bottom line is that dayrates remain weak, but utilization is edging up. According to **Offshore Data Services**, rig utilization in the US Gulf of Mexico has moved to nearly 66%—again, hardly a halcyon level, but certainly a welcome shift in direction.

Oilfield-service firms are hungering for the millennium. **Halliburton Co** Chairman **Dick Cheney** recently predicted that the company's business would increase significantly in 2000. "We think 1999 is the trough, and 2000 we think will be significantly improved over that," he said.

OPTIMISM ONLY CAUTIOUS

Despite the late bullishness, though, some seasoned observers warn against a rush to judgement. Ringing the bell of cautious optimism, BP Amoco's Davies summarizes the situation: "World demand growth is increasing again, even though it is still below trend and likely to remain there. The world economy is weak and a strong recovery cannot be guaranteed."

And, in view of the volatility of today's energy markets, the possibility exists that all the foregoing could change well before these pages find their way to the bottom of bird cages around the globe. ■

DRILLING CONTRACTOR

CAPITAL WIRELINES

Industry moves on BLM rewrite of public-land rules

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(Washington)— On 23 June, representatives of IADC, API, IPAA, the Domestic Petroleum Council and the American Association of Professional Landmen met with **Bureau of Land Management** Director **Tom Fry** and his staff to discuss the status of the ongoing comprehensive BLM rewrite of its oil and gas regulations for public lands—substantially all in the Western US. When first announced last year, the proposed new regulations were presented in the "Federal Register" for comment, but without indications of precisely where changes from existing regulations were being made. Industry protested that it hadn't been given sufficient time to digest this massive rewrite and, further, couldn't easily analyze the draft new regulations unless informed by BLM where the substantive changes were being substituted. Industry concerns about the BLM rewrite led to the formation of the Public Lands Cooperating Association Forum, of which IADC was a founding member when established in Houston early this year.

Since that time, the Forum won an extension for comment, and subsequently organized several working groups to comb through the proposal to establish how it differs from existing regulations. After months of hard work, the Forum reached consensus on several problem areas in the draft regulations, including:

BLM proposes an unwarranted **new**, all-inclusive definition of hazardous waste and hazardous materials without regard for the existing definition, State primacy and disparate legislative and regulatory purposes and contexts.

BLM's incorporation by reference of certain API standards appears to have been done without a full review of those standards. Only the standards appropriate for onshore operations on federal lands should be referenced. Industry supports the continued use of Manual of Petroleum Measurement Standards, which are periodically augmented and amended.

BLM needs to incorporate current Federal and State regulatory and jurisdictional requirements for spacing, production, and waste instead of duplicating existing regulations.

Director Fry indicated he sympathized with many of industry's concerns and said that portions of the comprehensive new regulations will be "re-proposed". The coordinated cooperative effort of the Forum clearly impressed the Director, and he has instructed his staff to conduct workshops with industry to examine how industry's complaints can be answered or resolved. At a minimum, the Forum has established a united front, and with that has also gained credibility and time to modify the new regulatory regime, which when completed will be the system under which the oil and gas industry will operate for many years to come.

Significantly, BLM also held the first meeting of its National Petroleum Forum in Casper on 7 July "to engage customers and concerned citizens in dialog and determine trends and expectations". The focus of this initial conference was California, New Mexico and Wyoming. Representing IADC at that meeting was **Gary Hoggatt** of **True Drilling**. ■

LETTERS

IN READING THE May/June 1999 issue of "Drilling Contractor", I found the article "IADC Safety by Design..."on page 36 to contain many positive steps to improve drill floor safety, something which every person in the energy industry can appreciate.

In the section on hammer unions, however, there is a mistake. As with most things, I picked this out because I have made this same mistake before, and it creates confusion when ordering or specifying parts. For all Fig. 602, 1002, 1502, and 2202 hammer unions, the wing nut half is correctly designated the MALE HALF, and the threaded portion is correctly designated as the FEMALE HALF, not the opposite, as the article is written.

The deceiving male/female relationship comes from the actual sealing surface of the hammer union, which is internal, not the hammer-portion or the ACME threads. I pass this on, as it is easy to confuse the designations. It becomes important when trying to match connections from rig to subcontractor equipment or to supply vessels, and can be a costly one if you are in the middle of nowhere and discover you are trying to make up 2 males.

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