DRILLING CONTRACTOR

DRILLING AHEAD

Hang together or hang separately

Mike Killalea, Editor & Publisher

"We're in this together!" **Grey Wolf** Chairman, President and CEO **Tom Richards** reminded the industry at the Oilfield Breakfast Forum in Houston the other day. Mr Richards, Vice Chairman of IADC, pointed out that the challenges confronting the drilling industry pose as much of a problem for oil companies as for drillers.

In the words of **Benjamin Franklin**, if we don't hang together, we shall certainly hang separately.

The largest challenge Mr Richards cited is the need of our industries, E&P and service, to make enough money to attract fickle capital. This phenomenon of capital flight has become a common refrain in the business. Stock prices for oil companies have suffered most, Wall Street having it its collective head, apparently to punish E&P companies for lackluster long-term financial returns.

Now, the increasing focus on stock prices and investor attitudes is not reserved only for top-dog executives and those whose pockets sag with the heft of their portfolios. The point of the equity market being—among other things—to generate capital for investment, the fate of oilfield and E&P securities parallels the fate of all of us in this business. And, beyond that, the ability of this industry to provide energy for a hungry world.

Ironically—and ominously—oil company stocks are lackluster *despite* near-record crude-oil prices. This is a first.

On the face of it, it appears a whale of an incongruity that the bedrock industry of industries—that which supplies a world with its principal fuel—should languish in the equity shadows, while Internet companies that have yet to turn tupence of profit bask in the sun. Alas.

Still, the fact is that E&P companies have performed fairly miserably on returning profits to investors. A top-of-class company like **ExxonMobil** has done no better, analysts say, than 15% return on investment, while the average is in the soggy single digits—a measly 7%.

That's not much of an incentive to investors, when high-tech firms are turning around rewards on the order of 25%.

The problem appears to be the Wall Streetish notion, right or wrong, that E&P companies expend capital inefficiently—not to say wastefully, though some say just that. Too many dry holes at too high a cost, the enhancements of technology, such as 3-d seismic notwithstanding.

As Mr Richards' pointed o0ut the other day, though, rig efficiency has greatly improved. Today's rig drills twice the footage of its predecessors in the 1970s. This, he said, could double again over the next 15 years.

Gun-shy investors threaten to choke off the air supply of investment in our business, just as new capital is critical as we stand on the edge off a new surge for energy, particularly for natural gas in North America.

To get a handle on natural-gas demand, **Marshall Adkins** of **Raymond-James Associates** said during February's IADC Directors and General Membership Conference that gas prices could exceed $3/Mscf this year.

Since then, Mr Adkins' analysis have only grown more bullish. He argues that, not only are natural-gas prices sustainable above $3/Mcf this summer, but that the probability is high that natural-gas prices could exceed $4 by the end of the summer.

Mr Adkins states 4 key supply/demand assumptions/facts:

- The US gas market is currently undersupplied, despite back-to-back record warm winters;
- An assumption that US imports of Canadian gas should increase by 0.7 Bcf / day, *despite* recent indications of a flattening Canadian supply picture;
- US demand this summer should be up at least 1.5 Bcf per day (or 3%);
- US gas supply this summer should be down approximately 1 Bcf/ day (or 2%) from last summer's supply.

Mr Adkins then develops a larger natural-

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CAPITAL WIRELINES

Offshore sector wins special provision for Working Time Directive implementation

Brian T Petty, Senior Vice President-Government Affairs

EU OFFSHORE WORKING TIME VICTORY (Brussels)—The **EU Conciliation Committee**, consisting of members of the **European Parliament**, the **Council of Ministers** and the **European Commission**, reached an agreement on the extension of the Working Time Directive to cover workers in the sectors currently excluded from the Directive. These are rail, road, sea, inland waterways, sea fishing and offshore sector activities ("other work at sea") and doctors in training. Approximately 5 million more workers in the EU will be covered by the removal of the "exclusion".

'After nine years of detailed negotiations, including ... a very active industry effort to provide the Commission and the European Parliament with practical and reasonable justification for the industry's special operational requirements, this is a satisfactory outcome. Ours is the only sector that has been extended a 12-month reference period'

The compromise text amending Article 17 (a) 3 of the existing Directive with specific application to "Other Work at Sea"—which encompasses offshore oil and gas exploitation—now reads: "Subject to compliance with the general principles relating to the protection of the safety and health of workers, and provided that consultation of representatives of the employers and employees concerned and efforts to encourage all relevant forms of social dialogue, including negotiation if the parties so wish, Member States may, for objective technical reasons concerning the organisation of work, extend the reference period referred to in Article 16 (2) to twelve months in respect of workers who mainly perform offshore work."

A further amendment introducing Article 17 (1) 3a states: "Not later than ...[five years from the date of entry into force] the Commission shall, in consultation with the Member States and with management and labour at the European level, review operation of the provisions with regard to offshore workers from a health and safety perspective with a view to presenting, if need be, the appropriate modifications." This would seem to indicate that after coming into law later this year, the effect of these provisions will be reviewed sometime within but not later that 5 years.

The European Parliament and the Council of Ministers will now have six weeks (with a possible extension to two months in which to adopt the Directive. It will then become Community law. Member States will have three years to implement all the provisions of the Directive into their national laws, apart from those concerning the working time of doctors in training.

After nine years of detailed negotiations, including cooperation with a Commission-appointed consultant and a very active industry effort to provide the Commission and the European Parliament with practical and reasonable justification for the industry's special operational requirements, this is a satisfactory outcome. Ours is the only sector that has been extended a 12-month reference period. Thanks are owed to the IADC members who contributed information to make the drilling industry's case and to representatives of other associations, most importantly the International Association of Oil and Gas Producers (OGP), formerly known as the E&P Form, which acted as the joint E&P industry secretariat. ■

gas supply and demand picture. He begins with the 1.66 Tcf injected last summer as a starting point. He then subtracts 2 items—a projected demand increase of 1.5 Bcf/day and another 1 Bcf/day of reduced supply—and ads in 0.7 Bcf/day of Canadian supply.

He thereby calculates that injections during summer 2000 will total 1.28 Tcf. As a result, only some 2.3 Tcf would be in storage on 1 Nov.

"We see a startling problem emerging," he writes. "A Nov 1 storage of only 2.3 Tcf would be well below any historic low that we have ever seen and would set the US up for potential gas shortages and dramatic price spikes as we move through the winter of 2000-01."

By comparison, storage in 1997, 1998, and 1999 totaled 2.8 Tcf, 3.1 Tcf and 3.0 Tcf, respectively.

"What's even scarier about the data above is that we believe that many of our supply/demand assumptions are fairly conservative," he continued. "If there is an error in the analysis above, it is likely that it will occur with demand being substantially higher or supply substantially lower than we've assumed in the model."

Wall Street, are you listening? ■

TWO WELCOME ABOARDS!

2 hearty welcome aboards to new faces at IADC's offices, but very familiar mugs around the industry. First, **Joe Hurt** has joined IADC as Director-Land Operations. Joe will have plenty on his plate, working with IADC's Land Division, the Health, Safety and Environment Committee, IADC Accident Statistics Program, and our Drilling and Well Servicing Structures Task Force. There's more about Joe on p 47in CONTRACTOR NEWS. Joe can be reached at joe.hurt@iadc.org.

I am similarly pleased to announce that the pages of this fine periodical and its sister newsletter "Drill Bits" will soon be graced by the skilled pen of **John Kennedy**, who joins **Drilling Contractor Publications** as Contributing Editor. John, longtime former editor of ***Oil & Gas Journal*** (still our partner in crime for publishing DC and the *IADC Membership Directory)* will basically serve as chief editor for DC and "Drill Bits".

John brings to the IADC/DCPI organization more than 3 decades of journalistic experience in petroleum technology, operations, economics and regulations. It's a pleasure to welcome John on board and I look forward to working with him. You can reach him at john.kennedy@iadc.org. ■