That's no tornado, Toto—Just another spike in the rig count!

An operator, a land contractor and an offshore driller react to the findings of the '99 ***Reed-Hycalog*** *Rig Census.*

PREDICTING EITHER RIG count or oil price is like forecasting the weather, remarked a sardonic **Mike Harris** in review of the '99 **Reed-Hycalog** Rig Census. Mr Harris, Regional Drilling Manager-Gulf of Mexico for **BP Amoco**, spoke tongue in cheek at the '99 IADC Annual Meeting, but nonetheless made some important observations about the industry.

"Oil price spikes are kind of like tornadoes," he said. "We need to protect against them."

Mr Harris indicated that, despite the recent run-up in oil prices, he believes commodity prices are headed down long term. BP Amoco, he said, continues to base its planning on Brent oil of about $11/bbl. "We have a structure to provide transparency throughout the organization to react quickly," he said.

Mr Harris advised contractors to be aware of continued turmoil in oil and gas prices. "Have a game plan and be ready to drop rates quickly," he said. Meanwhile, he advised contractors to preserve their lines of credit and not overextending, while hedging against low commodities and working closely with operators to understand their needs. Prepare, he said, to operate the last rig working.

Technology is also important, citing dual-activity advances. Rigs should also be more flexible and offer, when applicable, the ability to pull trees and conduct flow tests. The commitment to HSE should not be neglected, he said.

ALL ECONOMIC CONCERNS

Also addressing the implications of the Reed-Hycalog Rig Census was **Vaughn Drum**, President/CEO of **UTI Energy Corp**. Mr Drum noted that in both 1998 and 1999, contractors listed the same items as their top 5 concerns—rig rates, crew availability, aging rig equipment, drill pipe and rig parts availability.

"Notice a pattern here?" he said. "Every issue is an economic issue and that is purely a function of demand. And demand in our industry is driven by the price of the commodities our customers sell, *not*—and I repeat—*not* by the price we charge for our services.

"There is no magic rate to which we can reduce the pricing for our services and expect to survive or earn an adequate return on capital that will compel a customer to drill a well that the commodity prices do not justify."

Mike Harris

Vaughn Drum

Jean Cahuzac

ANOTHER CYCLE LOOMS

Sedco Forex President **Jean Cahuzac** said another cycle of tight rig supplies and skyrocketing dayrates will begin in 2-3 years. "For the future vitality and growth of the drilling contracting industry, it is imperative to break the cycle of high dayrates and under capacity followed by low dayrates and over capacity," he said.

Mr Cahuzac further predicted that new building beyond that already programmed will halt in the short term as a consequence of the recent collapse in commodity prices.

"It will take a relatively prolonged period of improved pricing and higher utilization rates for contractors to feel secure enough to commit to a fleet expansion, particularly since borrowing capacity and cash are in short supply," he said. "Therefore, the industry should not face a rig oversupply as conditions improve."

Mr Cahuzac said the 1995-97 recovery in offshore markets was underwritten largely by the expansion of the deepwater sector. Numerous offshore rigs, most of them targeting the offshore, are set to enter the market over the next couple of years.

This level of increased rig supply could spell disaster down the road, if more collisions with crashing oil prices are in store.

"To maintain a semblance of market balance will require sustaining the deepwater programs, which will depend directly on efficiency gains and lower well-construction costs to offset often marginal field development economics," he said.

To break the boom-bust cycle, Mr Cahuzac called for investment in technology and for improved long-range planning.

He also urged consolidation as a positive force in the industry. "Consolidation is necessary," said Mr Cahuzac. "There are just too many suppliers to support both the existing and anticipated future rig market." ■