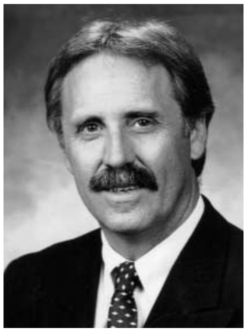
Reed-Hycalog census: US rig fleet shrinks for first time in 2 years

THE CATASTROPHIC PLUNGE in oil prices earlier this year contracted the US rig fleet to 1,644 available units, the first decline in 2 years, according to the 1999 **Reed-Hycalog** Rig Census. The 47th annual census also found that 1999 marked the lowest number of additions to the fleet since 1988. In addition, the number of *active*—as opposed to *available*—drilling rigs in the US fell to 860, marking the first time ever that benchmark has dropped below 1,000.

"Percentagewise, active rigs declined 34%, greater than the decline between 1981 and 1982 (-31%) and second only to 1985 and 1986 (-60%)," explained Reed-Hycalog President **John Deane**. Consequently, utilization cratered, plummeting to 52.3% in '99, compared to 76.5% a year ago, when 1,305 rigs were dubbed active. Mr Deane unveiled the census and survey at the 1999 IADC Annual Meeting on 30 Sept at The Houstonian Hotel.



John Deane

Reed-Hycalog's measure of "active" rigs differs from weekly rig counts. Reed-Hycalog counts a rig as "active" if it has operated at any time during the 45-day census period. Consequently, the Reed-Hycalog active count is always higher than weekly counts.

The 1,644 count is down 61 rigs (3.6%) from the 1998 available rig count of 1,705. It is also, Mr Deane pointed out, exactly 4,000 rigs shy of the 1982 halcyon figure of 5,644 available units.

However, grim as it may be, Mr Deane pointed out that the census and accompanying survey were conducted early in the summer, preceding the autumn resurgence in oil and natural-gas prices.

FORECAST UPBEAT

Consequently, the forecast for next year is upbeat. Reed-Hycalog predicts that in 2000, the available rig count will remain stable, but that the active count will rise to 1,200. The resulting predicted utilization will be 73%, precisely the average of the last 47 years of census taking. The 2000 Reed-Hycalog Rig Census will be unveiled on 28 Sept, 2000, at the 2000 IADC Annual Meeting, again being held at The Houstonian Hotel.

"We predicted that available rigs will stay at 1999 levels as future demand will be satisfied by rigs currently stacked," Mr Deane announced. "As a result of the higher commodity prices we are experiencing now, you can expect utilization to increase also."

CONTRACTOR ATTRITION

The census also confirmed what everyone already knows—that the number of drilling contractors continues to decline.

"Our industry has been changing at an accelerated pace as of late," Mr Deane said. "As rig owners merged, the number of contractors declined to 219, down 21 from last year."

Contractors with 20 or more rigs now own 54% of all US-based rigs, a higher level than ever before, the census found. There are 15 such down from 16 a year ago.

"Although consolidation is a difficult task, it has made a significant contribution to our industry's ability to deliver our products consistently and at very attractive prices," Mr Deane said.

However, many analysts believe consolidation still has far to go in the drilling industry. For more on that, see p 37.

DELETIONS

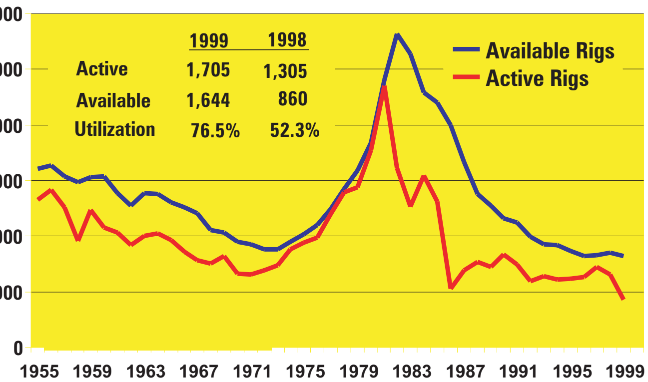
Deletions from the US rig fleet continued fast apace in 1999, totaling exactly 100 rigs removed from service in the US, compared to 72 in '98.

1999 marked the first year since 1996 in which fleet deletions exceeded additions (39), the census found.

The survey counted 46 rigs as unavailable due to excessive capital expenditure required to keep the unit in service, compared to only 29 in '98. The upper bound of CAPEX is set at $100,000 for land rigs and $1 million for offshore units. Drill pipe is excluded.

41 rigs were cannibalized or auctioned for parts, nearly twice as many as 1998's 22. "The number of rigs cannibalized or auctioned for parts increased after 3 years of decline," Mr Deane said. "It was thought that this low-cost source of replacement was close to depletion, but as more rigs were stacked this past year, many rigs were deemed obsolete."

Available vs Active Rigs in the US: 1955 - 1999

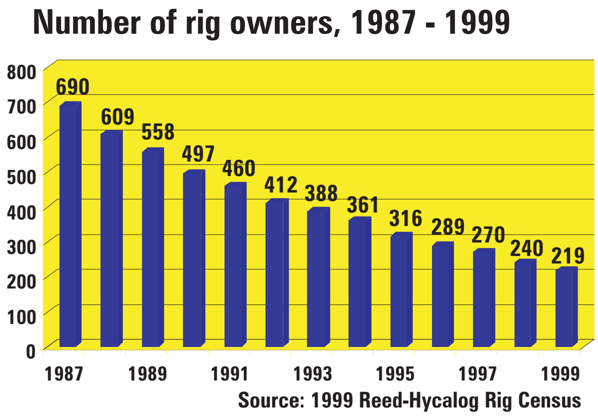


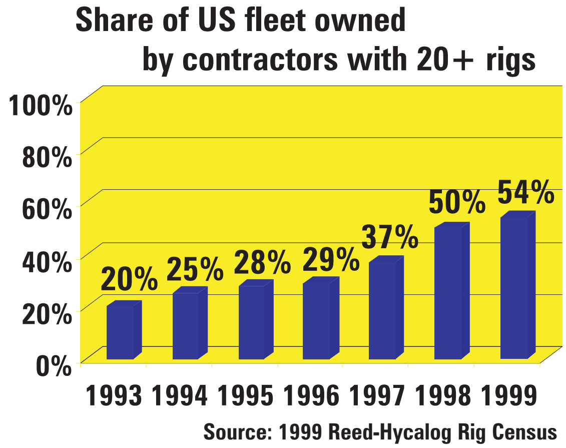
Source: 1999 Reed-Hycalog Rig Census

7 rigs were moved out of the US, compared to 10 in 1998. 2 were discounted for being stacked for more than 3 years (8 in 1998). Finally, 4 rigs were destroyed, compared to 3 in '98.

ADDITIONS

As Mr Deane said regarding fleet additions, "We see a slowing of the momentum that began in 1997."





The 39 rigs added to the fleet represent a whopping 65% decline from the 112 added in '98. In 1997, 143 rigs joined the fleet.

"Rig additions have decreased dramatically over the past 2 years, but 39 seems a sizable number, given the depressed levels of the past year," Mr Deane said. "However, this year's total is the lowest since 1988, and the average number of additions has been 124 over that time period."

The most eye-catching difference is the number of units assembled from components. Contractors really put on the brakes in this category, according to the census, assembling just 9 in '99, a stunning 85% below the 62 counted in '98. The number of rigs brought back into service fell by half, to 18 rigs in 1999 from 37 rigs reactivated in 1998. 6 were newly manufactured, against 7 in '98, and 6 moved into the US, the same as in 1998.

"We encounter some interesting findings," observed Mr Deane. "Rigs assembled from components and those brought back into service have dramatically decreased compared to last year. The decrease is a result of falling rig demand causing more recently stacked rigs to soak up the demand normally satisfied by rigs from these 2 categories.

"Interestingly, newly manufactured rigs and rigs moved into the US declined by one and zero units, respectively," he continued. "This is a result of rigs moving back from depressed international areas, such as Latin America and new rigs built from momentum of 1997 that were not yet completed by the 1998 census period."

3 of the newly manufactured rigs are California land rigs, 2 are Alaskan land rigs, and the last is a marine unit offshore Louisiana.

CONTRACTOR CONCERNS

Reed-Hycalog also surveyed contractors. This study found that, not surprisingly, first and second concerns of drilling contractors are rig rates and crew availability, in that order. These are unchanged from 1998. Number 3 was aging of rig equipment in '99, while the 3rd-ranked concern in '98 was drillpipe replacement.

Contractors said their business began to suffer at \$14.30/bbl for oil and \$1.80/Mcf for gas on average.

"During this year," Mr Deane said, "we experienced prices well below these ranges for extended time periods, and we've all seen the result."

Reed-Hycalog in '99 also asked at what level commodity prices would improve the contracting business. The average answer was \$19.30/bbl for oil and \$2.58/Mcf for gas.

"Prices have recently risen above these marks, hopefully signaling a prolonged recovery from the past year's difficulties."

Contractors also indicated optimism that activity would increase in late '99 and throughout 2000.