DRILLING CONTRACTOR

DRILLING AHEAD

All is relative. No Einstein needed to see business is relatively good

Mike Killalea, Editor & Publisher

EVERYTHING IS RELATIVE, Mr **Einstein** wrote. Two years ago, the industry—and yours truly—would have shamelessly salivated at seeing $3-plus natural-gas and $24-$25 oil. These levels, today's reality, currently all but draw yawns from reluctant-to-drill operators, and outright cold sweats from some oil-service investors. This is particularly true for natural gas, whose fortunes have fallen by far since wintry January, and even further since ringing the $10 bell last December.

To expect natural gas to achieve and sustain near-double-digit levels is unrealistic, to say the least, and reminiscent of the starry-eyed and wrong-headed predictions of $100 oil 20 years ago. One of the few sureties about hydrocarbons is the self-correcting nature of their pricing. As prices rise, demand drops. Over the last several months, utilities switched to distillates, residual fuels and other sources. **Raymond James**, for example, estimates that 5-9 bcf/day of additional natural gas entered the market during the first quarter due to a combination of slackened demand and increased supplies. Warming weather has also lessened demand, and therefore, gas prices. However, look for the summer air-conditioning season to bolster both.

The fallout is reflected in softening rig utilization on some units, principally large jackups in the Gulf of Mexico. However, seasoned drilling contractors are upbeat. Commented **Noble Drilling Corp** Chairman/CEO **James C Day**, "The positive fundamentals for the offshore drilling sector remain intact. There have been recent reports of weakness in Gulf of Mexico jackup dayrates, however, at this juncture, the market for drilling services remains quite firm."

Rowan Companies Chairman/CEO **C R Palmer** said recently that the company's second quarter rig utilization fell to 90% from 97%. Even so, Rowan's average offshore dayrates during the period rose to $61,000 from the first quarter's $58,000. Further, Mr Palmer expects better utilization soon.

"We believe we will soon have commitments for our three available offshore rigs and that all of our 23 offshore rigs and 13 marketed land rigs will be operating around July 1st," he said. "As a result, we believe our third quarter drilling utilization and day rates will be improved over estimated second quarter levels."

And the **Offshore Rig Newsletter** reports that no softening has infected the market for smaller jackups. The newsletter also observes that international markets for large jackups continue to strengthen.

Deepwater contractors also keep on trucking. **Global Marine** Chairman, President and CEO **Bob Rose** recently noted that, "Continued spending by the majors this year has tightened semi utilization to the point that dayrates have been bid up to levels not seen in more than 2 years."

Onshore dayrates are up some 40% compared not to last year, but to their *1997* quarterly average peak, according to **The Land Rig Newsletter.** Raymond James believes that land dayrates will continue to grow, even with gas in the low $3 range. "Even if we were to assume that the current gas price environment were here to stay, we believe that the exceptional returns that would still be generated by E&P companies would support further increases in dayrates," the company says. "In fact, even at gas prices in the low $3 range, returns for E&P companies more than justify a land-rig new-build cycle."

Everything is relative. But relatively speaking, the contract-drilling business is in pretty good shape. ■

PRIDE, MARINE MERGING

PRIDE INTERNATIONAL and **Marine Drilling Companies** announced a $6.2 billion merger that will field a combined fleet of 77 offshore rigs, including 2 drillships, 11 semisubmersibles, 35 jackups and 29 tender-assist, barge and platform rigs, as well as 246 internationally operating land rigs. Six of the offshore rigs are capable

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CAPITAL WIRELINES

Testimony helped explain need to let duties on drillpipe expire

Brian T Petty, Senior Vice President-Government Affairs

ITC OCTG RULING (Washington, DC)—The **US International Trade Commission** (ITC) conducted a hearing on 8 May, 2001 to review the existing antidumping orders against OCTG from several countries, including drillpipe from Argentina, Mexico and Japan. IADC Senior Vice President-Government Affairs **Brian T Petty** testified on behalf of IADC and was joined at the witness table by **Alan Orr** of **Helmerich & Payne IDC** , who offered independent testimony as a significant purchaser of drillpipe.

On 15 June, the ITC voted to lift the duties against drillpipe from Argentina and Mexico, but to continue the duties against Japan. But it voted unanimously to continue the dumping orders against all other OCTG currently under restrictions imposed in 1995. While IADC is disappointed that Japanese drillpipe is still effectively shut out of the US market, insofar as Argentina and Mexico are concerned the possibility for building drillpipe manufacturing capacity in those countries has been enhanced. Mr. Petty's testimony set forth the following:

"Drill pipe is included within the class of oil country tubular goods (OCTG) which was targeted by the petitioners in this proceeding. Drillpipe accounts for less than 1% of the total tonnage for OCTG. The drilling industry consumes drillpipe, and must replace that pipe on a routine basis. There are but 2 US companies that produce over 80% of finished drillpipe.

"Given the relatively insignificant component of OCTG that drillpipe represents and this country's need for finding additional hydrocarbons, it is time for the federal government to let anti-dumping penalties on non-US drillpipe lapse.

"IADC's member companies have for nearly 15 years struggled with shortages in finished drillpipe. As far back as the mid-1980's, US drilling contractors encountered severe shortages in drillpipe inventories, largely precipitated by the effects of the voluntary restraint agreements (VRAs) on steel. With the expiration of the VRAs in 1992, the market for drillpipe was restored, but only briefly.

"By April 1996, drilling contractors were reporting lags in delivery of 2 years after placing orders with the 2 dominant US drillpipe manufacturers, one of which accounts for over 70% of the market. Without pipe, drilling rigs remain idle. And idle drilling rigs mean new sources of badly needed oil and gas are left undeveloped.

"In the April 2001 issue of 'The Land Rig Newsletter,' domestic drillpipe producers predicted that drillpipe prices will likely be 70% higher by year-end over last year. That's a pretty reliable indication of sharply increased demand, which will inevitably overtax domestic drillpipe producers' capacity, just as occurred in 1996. And the number of domestic drillpipe producers hasn't changed since then.

"But in a landmark December 1999 study of US natural gas supply and demand, the **National Petroleum Council** advised the Secretary of Energy that 'the US drilling fleet must expand to undertake the dramatic increase in activity that will be required to produce the additional gas supplies anticipated in this study. The number of wells drilled annually is projected to more than double, from roughly 24,000 in 1998 to over 48,000 by 2015.' And 'approximately 150 million feet were drilled in 1997. By the year 2010, this figure is expected to be 215 million feet and by 2015 nearly 270 million feet.' This stunning projection suggests a corresponding increase in US demand for drillpipe.

"With the lights now flickering in California, soon to be followed in the Northeast this summer, the public interest will be poorly served if the duties at issue are extended with predictable continued damage to the US energy industry." ■

of operating in water depths of 5,000 ft or more, the companies said.

Robert L Barbanell, currently Chairman of Marine Drilling, will serve as Chairman of the combined company, named **Pride International Inc**. **Paul A Bragg**, currently President/CEO of Pride, will work in the same capacity in the new company. ■

2000 BP ENERGY STATS OUT

BP'S JUST-ISSUED REVIEW of world energy confirm and painstakingly document that energy markets were strained during 2000 as hydrocarbon prices spiraled to levels unseen since the early '80s.

The 50th annual "BP Statistical Review of World Energy 2001", published in late June, is a remarkably comprehensive study of energy consumption and production. The review tracks not just oil and gas, but also the overall energy picture, as well as coal, nuclear, hydroelectric and, in the US, renewables and electricity.

Also, for the first time in the 50-year history of the review, BP has published a companion edition, designed to focus exclusively on energy markets and production in the US. Both publications are available on line at "www.bp.com/centres/energy/index.asp" (use all characters between but not including the quote marks).

The reviews feature succinct summaries of this year's findings, but also make available a plethora of downloadable data in a variety of electronic formats, including XLS, PPT and PDF. The data is handy both for analysis and for presentations.

The review found determines that world energy consumption grew by 2.1% in 2000, compared to essentially zero growth in 1998-99. World oil prices averaged 58% higher in 2000 than in 1999, at $28.98/bbl for Brent crude. This, BP says, is the highest since 1983.

Natural gas was the fastest growing fuel during 2000, the report says, with global consumption rising by 4.5%—the highest since 1986.

Natural gas production worldwide increased by 4.1%—less than the overall demand growth. The biggest increases were in countries tapping into the growing international trade in LNG.

In the US, crude oil and products inventories ended the year at a new 10-year low. Despite a slight increase in oil production—the first since 1991—US dependence on imported oil increased.

However, US gas production increased by 3.5% during 2000, more than making up for the production declines of 1998 and 1999, thanks to—you guessed it!—a sharp upturn in drilling. ■