

# Independents keep N Am drilling activity afloat

**WHILE MANY MAJOR** oil and gas companies are focusing on return on investment, some independent operators are moving ahead with significant drilling programs. Higher capital budgets are expected during the next few years, with some independents increasing their 2002 budgets based on high commodity prices.

Some of the drivers behind this activity, in addition to high commodity prices, are new technology that reduces drilling costs through more efficient and faster drilling; new completion techniques; and deep drilling on the Gulf of Mexico Shelf as well as onshore. More independents have stepped offshore and a few are active in deepwater as well.

Some independents, particularly the large companies, have developed some of their own technology, and others process and reprocess seismic in house. Some companies also developed completion techniques resulting in high rate wells that are necessary to meet drilling and production costs.

The independents are also looking toward drilling contractors and service companies to provide new technology and greater drilling efficiency. Part of the solution, according to one independent, is experienced crews and reliable equipment. And while the word alliance makes most people in the drilling industry wince, it's interesting that several of the independents have alliances with drilling contractors and other service providers.

## EL PASO PRODUCTION

Technology was an important message among the independent operators making presentations at IADC's 2002 annual meeting in September. **Rod Erskine**, President of **El Paso Production Company**, said his company pushes the envelope on technology and applies new technologies when practical. "If (the industry) finds a new technology and we break even with it the first time we get very excited. We push that learning curve very hard."

Mr Erskine said, however, that a very large drilling program is required. "Fortunately, we have that," Mr Erskine said. "We spent \$2.4 billion last year and \$2.3

billion this year. We use that as a business tool that provides economic advantages over companies that drill a few wells and then move on."

To make its deep drilling program in South Texas and other areas economic and efficient, beginning in 1995 the company developed new completion techniques so now its typical well produces three times what the industry produces, according to Mr Erskine, which is the kind of production rate necessary to pay for the ultra-deep wells that could cost up to \$10 million to drill.

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One of the new techniques the company has used recently on some of its wells is a steerable rotary drilling tool that enabled the company to drill 14,000 ft in 25 days, a significant increase in rate of penetration. The company also contracts several of **Helmerich & Payne's** Flex Rigs in South Texas. The first well drilled with a Flex Rig reached TD in 20 days with production 10-15% higher than the typical well in the area. A Flex Rig also reduced drilling time (and costs) in Oklahoma to 16 days for a 14,000 ft well compared with as many as 23-30 days previously, Mr Erskine noted.

El Paso Production is also active in the Gulf of Mexico and seeks out technology for efficient operations there as well. Mr Erskine said he is excited about dual mud capability that the company requested to be installed on some jack-ups it contracts. The dual mud system can reduce drilling time by 8-10 days.

"A recent (Gulf of Mexico) well was drilled to 19,000 ft in 28 days for \$4.4 million," Mr Erskine said.

The company has alliances with several service companies, including **Schlumberger**, **Cameron**, **Halliburton** and **BJ Services**. "We worked out these alliances because of the huge size of our program," Mr Erskine said. "The

alliance is a good deal for Halliburton, for example, because they work (for us) practically every day."

"It's great for them and we will save about \$90 million this year with the alliances."

In late September El Paso Production had about 55 rigs running in all of its operating areas along the Gulf Coast, Oklahoma and Louisiana as well as the Gulf of Mexico. The company averaged about 42 rigs operating throughout 2002.

In South Texas alone the company has 39 future prospects and expects to keep 14-16 rigs running for the next 3-5 years.

In the Gulf, Mr Erskine said, the company has a "huge" inventory of prospects mostly in the Central Gulf with some deep shelf prospects. "We have right now a total of 46 prospects ranging in depth from 15,000 ft to 22,000 ft," he said. "It will take us 2-3 years to drill them all with 8-10 rigs running."

## NEWFIELD EXPLORATION

**Newfield Exploration** also sees deep drilling in the Gulf of Mexico in the industry's future. "We are going into deeper waters and drilling deeper on the shelf trying to find things that have a size that will be meaningful," said **David A Trice**, President and CEO of Newfield Exploration Corporation. "That is our future."

Newfield is in the midst of acquiring EEX Corporation, which will provide the company with about 60 deepwater blocks in the Gulf. The company expects to be an aggressive player following the acquisition. "Those are blocks and areas that we are going to work pretty hard because we think there is value to be added in those areas," Mr Trice said.

As for deep drilling in the Gulf, Mr Trice outlined a play called Treasure Island that could include wells as deep as 27,000-30,000 ft. Before EEX and Newfield agreed to merge, EEX signed an exploration agreement with BP covering 110 blocks, and the Treasure Island prospect is contained in those blocks.

Mr Trice said that BP and several other major operators as well as several large

independents are excited about the area. Shell, he said, has already drilled a well in the area to about 25,000 ft and Newfield is convinced that Shell's play is associated with its Treasure Island play.

Onshore, Newfield is also looking at deep drilling with several prospects in South Texas targeted to between 18,000 and 22,000 ft. The company expects to drill four wells in the prospect in 2003, part of its up to 15 wells planned for South Texas next year.

Similar to El Paso Production, Newfield also has an alliance with a drilling contractor that has performed about 80% of Newfield's Gulf of Mexico work during the past two years. While alliance is a "dirty" word in some circles, Mr Trice did acknowledge problems with alliances in the 1990s and indicated that they are different today.

"What makes alliances work is when both parties recognize that they do have common interests and parallel operating philosophies," Mr Trice explained.

"That was supposed to have been the case in the 1990s but commonality dis-

appeared when one company was getting the shorter end of the stick."

"It doesn't work that way in our alliance," Mr Trice noted.

The alliance between the drilling contractor and Newfield doesn't operate under a signed contract, but rather "on a handshake agreement that doesn't require a battery of lawyers," according to Mr Trice.

Mr Trice said the contractor "has a history of keeping their people through the cycles. The driller told us it likes to do business with independents because they drill most of the wells."

Regardless of the alliance, he says, Newfield will always pay market rates. "I don't think alliances work that aren't based on market services," he explained. "But we didn't get squeezed at the top (of the market) and we didn't squeeze at the bottom either."

## **ANADARKO PETROLEUM**

Anadarko Petroleum sees its capital and exploration budget and its drilling activity rising during the next couple of years. The company increased its 2002 capital budget by 10% to \$2.2 billion and plans additional increases in 2003 and 2004 to \$2.5 billion and \$2.7 billion, respectively, based on what it says are realistic commodity pricing scenarios.

Anadarko plans to drill more than 900 wells worldwide during 2002, which should rise during the next two years based upon its increasing budget. Much of the money will be earmarked for US onshore and Gulf of Mexico activity plus Canadian onshore drilling with some international activity.

In the Gulf, Anadarko says it will drill about 20 wells in 2002 but that figure is expected to increase to about 35 wells annually during the next few years, according to William D Sullivan, Anadarko's Executive Vice President for Exploration and Production. The company will shift its exploration emphasis from shallow water to subsalt plays as a result of new technologies, and to deepwater. The company will complete its first deepwater development with the Marco Polo field.

Mr Sullivan had several suggestions for drilling contractors expecting to be the players in the future. He suggested mak-

ing dramatic changes in staffing levels and capacity levels. Reducing staffing and capacity during the down cycles and increasing during the up cycles may not be the best strategy for the future, according to Mr Sullivan.

"It is important to be well-positioned, competitively positioned when the cycle comes because when it comes we have to know that behind the down time is going to come the up time," Mr Sullivan said.

He also noted that the opposite is true as well. The industry, drilling contractors and operators alike, he said, need to look for ways to keep crews together and keep equipment maintained because market swings are destructive to the business, company values and shareholders.

Among its contractors, Mr Sullivan said, Anadarko is looking for improved efficiency, creativity, communication and greater value in drilling wells in as few days as possible at the same time ending up with a wellbore that has the highest value possible.

"Probably the two simple things we keep an eye on are experienced crews and good reliable equipment," Mr Sullivan noted.

"Experienced, capable and well-trained people and keeping those people, whether you are an operator or drilling contractor is going to continue to be a key to our success and the driller's success in the future," he said.

"An efficient crew is sometimes the only difference between a 30 day well and a 45 day well," he added.

"Functional, serviceable, reliable, dependable and safe hardware will also continue to be increasingly important," he said.

He noted that a lot of companies are investing in the development of new generations of more effective and more efficient drilling systems that will deliver higher value wellbores.

"Those companies are taking risks with their capital but from our point of view those are the companies that are going to continue to be well positioned for the future and who are going to best be able to help us accomplish our goals and objectives," Mr Sullivan said. ■

