ReedHycalog rig census indicates strong activity

THE 51ST REEDHYCALOG Rig Census found the number of available rigs in North America rose significantly this year while still posting strong worldwide utilization. In an effort to obtain more comprehensive figures, **ReedHycalog** teamed with three other companies that track rigs in the US and worldwide, **RigData**, **Nickle's Rig Locator** and **ODS-Petrodata**. As a result, several smaller companies and their rigs were included in the 2004 census, resulting in an increase in the number of drilling contractors.

Based upon the census, Reed Hycalog predicted that the active US rig count will increase by 15%, with the utilization rate improving to 88%, which could result in demand outstripping supply in certain regions and markets.

KEY SURVEY RESULTS

• The US rig fleet expanded to 1,893 rigs from 1,719 rigs in 2003. Additinally, 95 newly identified rigs brought the total fleet size to 1,988 in 2004. Excluding the newly identified rigs, the census found 243 additions to the fleet, and 69 deletions;

• The largest gain to the US fleet, 125 units, was due to rigs brought back into service after being inactive;

• The largest decline (55 rigs) to the US fleet was due to rigs removed from service;

• The total number of US rigs meeting the census definition of "active" was 1,674 versus 1,334 last year, an increase of 25%;

• Even with the increased fleet size, US rig utilization climbed to 84% from 78% in 2003;

• US rigs targeting natural gas versus oil dropped in 2004, with 39% of all rigs targeting solely gas, versus 48% last year;

• Based on recent US activity, dayrate drilling contracts continue to be the most prominent at 77% of all drilling contracts;

• The Canadian rig fleet increased by 4% this year to 680 rigs;

• Canadian utilization fell during the spring census period to 66% in 2004, compared to 69% in 2003;

• The global offshore mobile fleet decreased by 1% this year to 673 rigs;

• Global offshore utilization rose from 71% in 2003 to 72% in 2004.

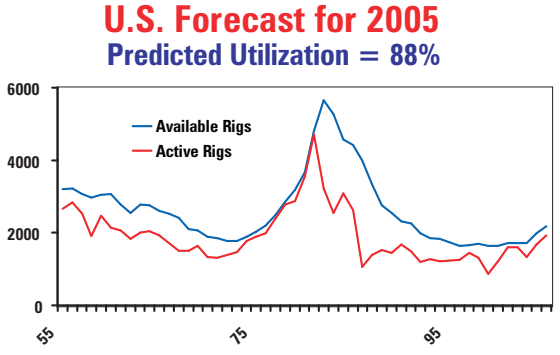
US RIG FLEET

There was a 269-rig increase in the number of available US rigs in 2004 with 1,988 units compared with 1,719 rigs in the 2003 census. This is also a significant increase from the low number of available rigs in 2000 (1,636) but a dramatic decline compared with the peak of 5,640 rigs in the early 1980s.

"It appears we have worked off that inventory," said **John Deane**, President of ReedHycalog. "The bad news is that it took us 20 years to do it."

The number of active rigs in 2004 was 1,674 at the time the census was taken (a 45-day period between May 5 and June 18). This year's active rig count is up 25% over 2003 when 1,334 active rigs were counted. The number of active rigs this year translates into an 84% utilization rate compared with 78% in 2003. The historical mean utilization rate for the last 50 years of the rig census is 74%.

The peak utilization of 98% in 1981 is used as a reference point, Mr Deane pointed out, but he also notes that five years later utilization stood at 26%. The industry has worked off the surplus equipment in the US and worldwide and the utilization of available rigs has increased.



However, he also explained that when utilization approaches 85% or 90% is when the industry begins seeing problems with availability. However, it is also the time when pricing issues arise for operators.

RIG FLEET ADDITIONS

The US drilling industry increased its total fleet of rigs by 338 units in 2004 compared with 169 in 2003 (2003's figures represent two years since a census was not conducted in 2002). One of the more significant figures is that 125 rigs were brought back into service in 2004 compared with 37 last year. The total additions also include 95 newly identified rigs, a result of the extra effort to obtain more accurate figures by partnering with several rig location services in the US and Canada.

There were 32 newly built rigs added to the US fleet in 2004 compared with 48 for the two-year period counted in 2003.

"That is 80 newbuilds in the last three years," Mr Deane said, "more newbuilds than we have counted in the last 15 years."

There were 79 rigs added to the fleet that were assembled from parts and seven that were moved into the country.

RIG FLEET DELETIONS

ReedHycalog determines whether a rig is removed from service based upon whether it has been stacked for three or more years or requires a significant amount of money to put them back into service. This year 69 rigs were deleted from the US rig fleet compared with 172 for the two years reported in 2003. Rigs removed from service in 2004 totaled 55 compared with 64 reported last year while rigs deleted from the fleet due to being auctioned for parts or cannibalized was 13 compared with 59 reported in 2003.

NET FLEET CHANGES

Combined, the fleet additions and deletions and the US rig census posts a nice net increase of 269 rigs from 2003 to 2004. The fleet grew from 1,719 in 2003 to 1,988 in 2004, "the first time in a long time that we have seen meaningful growth in the US rig fleet," Mr Deane said.

DEPTH CAPACITY

There is excellent utilization across all drilling depth capacities of the US rig fleet, according to Mr Deane. The largest number of active rigs is in the 6,000-9,999 ft and 10,000-12,999 ft categories. Combined, they are experiencing an 85% utilization rate. The 13,000-15,999 ft and 16,000-19,999 ft categories are both posting over 90% utilization. The lowest utilization rate was for rigs with greater than 20,000 ft drilling depth capability with 70% employment.

CANADIAN ACTIVITY

This is the first year the ReedHycalog census began tracking Canadian rigs, which grew by 4% from 2003. Utilization was 60% during the survey period, however, the survey was conducted at the worst possible time in Canada, Mr Deane acknowledged, since the middle of spring breakup is in May and June when the census was taken.

"We know that the Canadian rig fleet was nearly if not fully utilized during the winter drilling season," he said, "and we would expect the same to be true this winter."

The total Canadian rig fleet increased a net 27 units to 680 in 2004 from 653 in 2003. Of note is the fact that 39 of the 41 rigs added to the fleet in 2004 were newbuilds, yet there was still very little excess capacity in the country.

"I am told that we can expect the fleet to surpass 700 rigs at the end of this year."

While 39 rigs were newbuilds, eight were removed from the fleet due to retirements and six were moved out of the country.

Utilization by drilling depth capacity is driven by activity in Alberta, which are primarily shallow wells. Consequently, the largest number of rigs are in the 6,000-10,000 ft capability, which posted a 58% utilization rate at the time of the census, again keeping in mind the census was conducted during the spring breakup period.

All of the other depth capacity categories had similar utilization rates with one notable exception, the 3,000-5,999 ft category which experienced a 94% utilization rate.

"This high rate is because shallow gas drilling continues during that period of the year and those rigs remain very busy,' Mr Deane explained.

OFFSHORE RIGS

The offshore mobile rig fleet saw a drop of five available rigs from year to year, however, activity increased by seven units. Overall utilization for the offshore fleet was 72%.

Eleven units were added to the fleet during 2004, including nine newbuilds, one assembled from parts and one returned to service. Deletions from the fleet included 15 that were retired and one that was destroyed.

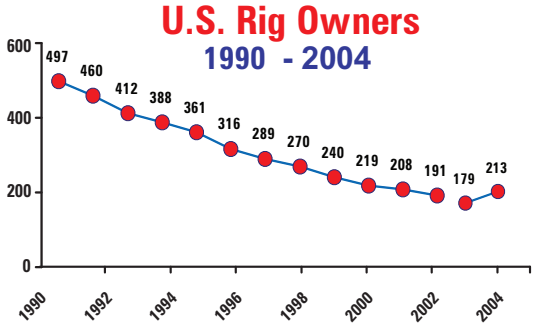
Utilization was fairly consistent across all rig types except one. Jackup utilization was 78%, semisubmersible utilization was 73%, and tenders and submersibles were about 70% employed. The one exception was drill barges, which posted a utilization rate of 31% during the census period.

RIG OWNERS

The number of US rig owners had been declining steadily since 1990, when 497 companies owned drilling rigs. In 2003, that figure had fallen to 179 companies. However, the number of rig owners increased to 213 in 2004.

"We don't think that's a trend, " Mr Deane said. "We think it is a result of better accuracy in our own census data.

"We believe mergers and acquisitions will continue to drive this curve over the years."



CONTRACTOR CONCERNS

Part of the census is a survey that asks drilling contractors to list their top concerns. This year, 12% of the participants provided that information. There hasn't been much progress in alleviating the concerns in 2003 as the top three are identical to those noted in 2003.

Number one is rig rates, followed by crew availability and then insurance costs.

"Interestingly, along with the survey, contractors reported that their rig rates had improved by about 12%," Mr Deane noted.

However, while rig rates were up, drilling contractors were also concerned about rising costs in other areas.

"Contractors reported that their maintenance costs were up about 16%, their labor costs were up by 9% and they are predicting that their cost for tubulars is up about 25%."

Regarding crew availability Mr Deane said, "That is indicative of what we already know, which is finding competent crews to run the number of rigs operating is becoming more and more difficult."

About rising insurance costs, Mr Deane said that concern is driven presumably by not only medical insurance but also by liability insurance and rig insurance. "The cost of that insurance has become a significant part of the industry's operational cost."

2005 UTILIZATION

Last year when ReedHycalog predicted the 2004 utilization rate it was conservative, driven in large part by the natural conservatism of the industry at the time, according to Mr Deane. This year, the company is a bit more aggressive based on the 2004 census results.

"We are predicting that the available rig fleet will grow by about 10% to 2,187 rigs in 2005," Mr Deane said, and that activity will also continue to grow.

"We bumped up activity to 1,925 rigs, which is about 15% over this year," he added.

"Consequently, the utilization rate is predicted to be 88% in 2005.

"This utilization rate is pushing the upper limits of where we have been historically," he said. "The outlook is good and positive, and the fleet is in much better shape than it has been in many, many years."