Canadian drillers wait for strong '08 as activities slow down even ahead of spring 'hibernation'

By Linda Hsieh, associate editor

Nabors Canada's Rig 59 is operating in Alberta, Canada, on Suncor Energy's Firebag project involving oil sands, a big trend in Canadian unconventional plays.

THE CURRENT MARKET condition for Canadian drillers would not stimulate additional new construction — yet the average rig count for 2007 is still expected to increase over 2006 numbers, from 801 to 833. "We believe the increase comes from rigs that were under construction going into the 3rd and 4th quarters of 2006," said **Don Herring**, managing director of the Canadian Association of Oilwell Drilling Contractors (CAODC). There also haven't been as many retirements of old rigs as expected, he added.

A general sentiment of overbuilding has crept up on the Canadian market, and it will likely be felt even stronger in the 2nd quarter of 2007 as Canada enters its annual period of "spring breakup."

"When frost comes out of the ground, the highway authorities put restrictions on the weight of the loads that can be moved. This means a lot of heavy equipment can't be moved," Mr Herring said. "It significantly impacts the 2nd quarter."

That impact is fully illustrated by the **Baker Hughes** weekly count of actively working rotary rigs in Canada: 600 as of 2 March 2007 and only 126 by 6 April 2007, a 79% decline. The breakup period usually runs from late-March to mid-May.

In times of very high demand and prices, as has been the case in the past couple of years, there are expensive ways of getting around the spring breakup inertia, said **Duane Mather**, president and CEO of **Nabors Canada**. But without that high level of demand and prices, "we're not spending money at any cost to get to location, so we're back to a normal breakup."

The usual breakup entails a drilling frenzy in the 1st quarter and "virtually nothing" in the 2nd quarter. The market then slowly builds back up in the 3rd and 4th quarters, and again spikes during the winter season.

There have been some efforts in the past 4-5 years to attempt to "flatten out" the activity level, Mr Mather said. Nabors, for example, is building heliportable rigs to give customers an option to get into remote areas during spring breakup. However, "the fact of the matter is, there is a certain amount of activity in the Canadian Basin that is only accessible when frost is present," he said.

REST OF 2007

Canadian drillers may already be used to a slow 2nd quarter, but this year they may have to face slower-than-usual 3rd and 4th quarters as well. "The 1st quarter was softer than what we've seen in the last 2-3 years, and the 3rd and 4th quarters appear to be a guessing game right now," Mr Mather said.

Other than natural gas prices and the newbuild influx, other factors are pressing down on the market. **ConocoPhillips** completed its acquisition of **Burlington Resources** in March 2006, and **Canadian Natural Resources** reached an agreement in November 2006 to acquire **Anadarko Canada**.

"These 4 players together encompass a significant share of the market, so while they sort through their reorganizations, a big part of the market is affected," Mr Mather said.

There also has been some fallout from the Canadian government's late 2006 announcement of a new tax on income trust distributions, which affected many oil and gas companies in Canada. "It's taking some time for the companies that were under that structure to figure out what to do," he noted.

However, the biggest challenge for Canadian drillers remains the weather. "We're very susceptible to significant changes in activity based on weather and related access issues."

NATURAL GAS OUTLOOK

While the market's soft and the forecast for the rest of 2007 remains murky, Mr Herring and Mr Mather agreed that there is a general optimism that the downturn will be short-lived.

"We're not expecting much change in natural gas prices through the end of this year, but most people expect it to come back strong in 2008 and increase demand for natural gas drilling," Mr Mather said. "We just have to ride out the next couple of quarters."

Like its neighbor to the south, Canada has seen unconventional resources take a bigger role in the drilling market. For oil, the big play is heavy oil/tar sands, mostly in the northeast sector of Alberta, according to Mr Mather. Nabors is

The Russian MI 26 helicopter, the largest in the world with a lifting capacity of 44,000 lbs, flies a wheeler truck to a Nabors universal transport container. Nabors is currently building heliportable rigs to increase access to remote areas.

focused on expanding its capability in the area, he noted.

Tar sands involve a lot of pad drilling, so operations could require as few as 6-7 wells on a pad or as many as 25-30. "The equipment becomes very specialized in its ability to move and stay unitized. We've built some unique units for land drilling operations that resemble an offshore platform in some ways," he said. One large pad rig is currently under construction that will work on heavy oil/tar sands in the Fort McMurray area of Alberta upon delivery, scheduled for late 2007.

Besides unconventionals, another shifting trend is the decreasing proportion of Alberta's drilling work. While Alberta has been and still is where most of Canada's oil and gas drilling is carried out, an increasing share has moved to British Columbia and Saskatchewan. "Saskatchewan is in a growth mode in part because the industry is more technically proficient, so there's more willingness to look at different resource basins with horizontal drilling."

THE PEOPLE PROBLEM

Another similarity Canada has with the US market is a tight work force. "That has been our most significant problem. We compete against a strong market for construction, forestry, transportation and oil sands," Mr Herring of the CAODC said. "One way we've tried to address that is through a mandatory trade program, designated as 'rig technician.' "

Three levels of certification – motorhand, derrickhand and driller — in the trade designate the employee's skill level. This 3rd-party skill assessment is kept on record, so as an employee moves from one contractor to another, his skill level can be verified.

"There's much less turnover among people who work in a trade," Mr Herring said. "For example, if business goes down, an electrician may go into something else, but they'll always be an electrician, and if the opportunity is there, they tend to move back." CAODC kicked off the trade initiative in 2002. The trade was designated in Alberta in October 2004, in British Columbia and North West Territories in 2005, and Saskatchewan approved it in 2006.

Mr Mather, who was actively involved with CAODC in the launch of the trade, said it was an initiative the industry sorely needed. "We're still in the infancy of the program, but we're starting to see the benefits," he said.

"We get some young people with less field experience than we would've gotten under the old model. But for the fleet size we've built, we needed to find a way to accelerate that learning curve, and this has been a good way to do it."