Census: US rig fleet utilization hits 20-year high

THE NUMBER OF AVAILABLE rigs in the US increased after 2 years of decline. But the past year's high commodity prices boosted drilling activity levels dramatically, pushing rig utilization to 93%, the highest since the 1980s.

Those are among the findings of the 49th annual **Schlumberger Reed-Hycalog** Rig Census, unveiled at the 2001 IADC Annual Meeting, 25-28 Sept, in New Orleans.

Reed-Hycalog and IADC have worked together to present the Annual Rig Census since 1991.

This year's Census results were computed using the 45-day period 5 May to 18 June, 2001.

Census figures are for the US only (including Alaska). Only workable rotary rigs are included; cable tool rigs are excluded. To be counted, a rig must be capable of, and normally employed for, drilling deeper than 3,000 ft.

John Deane, Schlumberger Vice President of Drilling Technologies, announced the results of the most recent survey, saying, "The decline in the number of rigs that began 19 years ago has leveled off and begun an upturn."

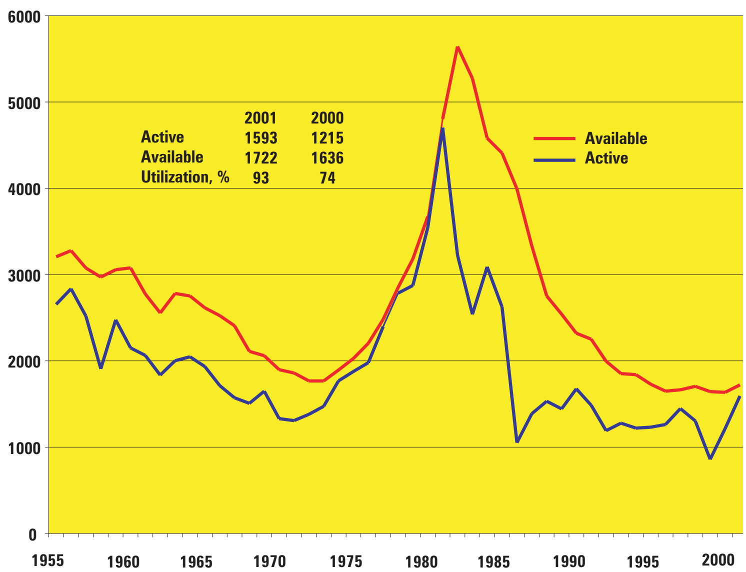
The US fleet showed a net gain of 86 units for 2001, rising about 5% to 1,722 rigs. Last year's count of 1,636 was the all-time low in the history of the rig Census.

Most rigs added to the fleet this year were assembled from component parts, said Mr Deane. "Despite the age of the rig fleet, as market conditions improved, rig owners were able to repair or assemble needed rigs fairly quickly."

The 2001 Census also measures rig activity, and this year's working rig count showed another huge increase in operating rigs, up 31% to 1,593 units.

This is the largest number of active rigs counted since 1990.

Available vs active rigs in the US



Source: 2001 Reed-Hycalog Rig Census

The active rig count from the Schlumberger Reed-Hycalog Census is higher than published weekly rig counts because it is a cumulative count of all rigs active at any time during the 45-day survey period.

As a consequence of the surge in activity during the past year, utilization rose to 93% in 2001 from 74% in 2000. The historical Census average is 73%.

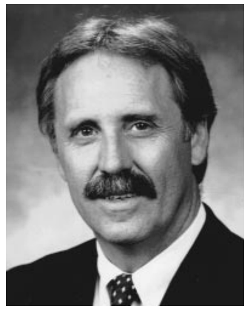
CENSUS HIGHLIGHTS

"Mergers and acquisitions in the drilling contracting industry have not let up, and have continued for more than a decade," said Mr Deane. As rig owners merged, the number of contractors has steadily declined to 191, down 17 from last year.

"There were almost 700 rig owners back in 1987 and we're down to less than 200 now."

Large contractors—those with 20 or more rigs—continue to gain more control of the total rig fleet, now owning 62% of all US-based rigs.

In a survey conducted in conjunction with the Census, drilling contractors reported "crew availability" as their primary concern this year.



John Deane

"Although drilling contractors have seen improved market conditions lately, the instability of the industry has left an acute shortage of qualified labor. With the need to put rigs back to work, not even the improved rig rates can bring back the lost generation of experienced help," said Mr Deane.

Every contractor responding to the survey reported higher rig rates this year; still, "rig rates" came in as the #2 problem.

"Recent economic events may add additional uncertainty over the next year, but the overall picture remains strong."

Mr Deane's presentation began with a look at natural gas.

"I don't think anyone expected gas prices to go up as high as they did," he said. "This industry continues to be one of the most volatile.

"This volatility has taught us that to survive we better use good management strategies during the ups and the downs since huge swings in commodity prices are often unpredictable."

Taking into consideration last year's jump in activity, the active count has nearly doubled in just 2 years.

This year's utilization rate of 93% puts utilization back to the level of the early 1980s for the first time.

"Some experts have said that the industry is considered 'healthy' when utilization is over 80%," said Mr Deane.

"We certainly hope this is the dawn of a new chapter of revitalization for our industry."

DELETIONS, ADDITIONS

Each year some rigs are added to the fleet and some are deleted based on established Census rules.

Attrition still affected the aging fleet even in an environment of expansion. Survey data show 96 rigs were dropped from this year's Census, 14 more than last year.

The #1 reason for rigs leaving the available fleet this year—as well as last—was capital expenditure requirements in excess of $100,000 for land rigs and greater than $1 million for offshore rigs (excluding drill pipe). This accounted for the deletion of 36 units this year.

The second most common reason was inactivity, involving rigs that were stacked for over 3 years. These rigs numbered 28 this year compared with 12 last year. The number of rigs auctioned for parts or cannibalized to support other units was essentially the same as a year ago.

"And many of the rigs that have been cannibalized in prior years are being resurrected in this year's Census as rigs assembled from components," said Mr Deane.

Other reductions include 6 rigs that left the US for other countries and 3 rigs that were destroyed in blowouts.

A total of 182 rigs were added to the US fleet this year, vs just 74 last year.

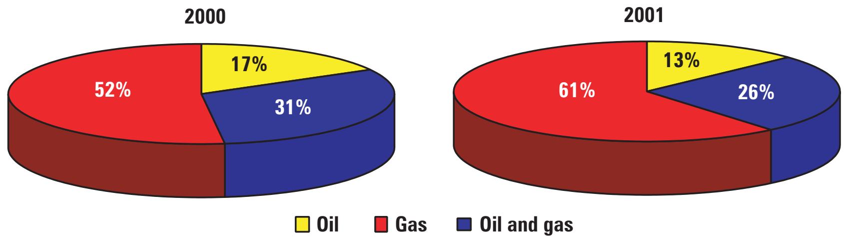
Rigs were added to the fleet in four ways: 105 rigs were assembled from component parts; 56 rigs became active or operable again after sitting idle for a number of years. Twelve rigs moved into the US, and 9 rigs were newly manufactured. These new rigs include 6 new land rigs and 3 new offshore units.

RIG OWNERSHIP

"(The) rate of industry consolidation just keeps going and going and going...," said Mr Deane.

A significant portion of the available fleet, about 20%, was affected by companies participating in mergers or acquisitions this year. "And this doesn't even count the rigs that were cannibalized or scrapped by the new owners. As industry consolidation continues, the big boys seem to gain more and more control of the fleet," he said. Those companies that own 20 or more rigs now hold 62% of all US based rigs. This percentage has more than doubled in the past 5 years.

US rigs drilling for oil vs gas



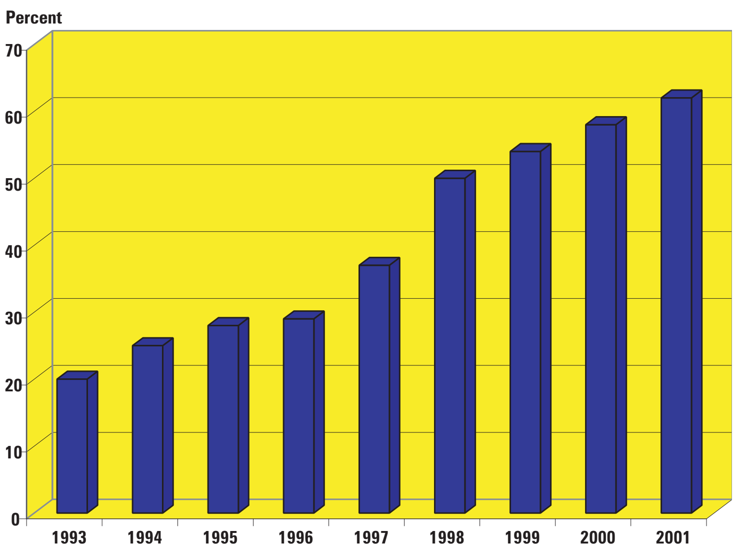
Source: 2001 Reed-Hycalog Rig Census

CONCERNS, PLANS

"Contractors who participated in our survey this year told us that crew availability remains their #1 concern. Of course, higher rig rates, the #2 concern, can solve many other problems."

Contractors continue to hope for rates that will allow necessary maintenance and capital improvements to their rigs, training and safety programs for their labor force, as well as reasonable profits. Every contractor that responded to the survey reported higher rig rates compared to a year ago.

Share of US fleet owned by contractors with 20+ rigs



Source: 2001 Reed-Hycalog Rig Census

The Census also surveys contractor plans for the next 5 years.

"There was a lot of confidence expressed by contractors," said Mr Deane.

About 63% anticipate expanding their fleets. About 25% don't think much will change for them. And 22% will seek merger opportunities. About 19% plan to pursue international opportunities.

None plan to downsize their fleets.

THE OUTLOOK

"The optimism of contractors is hard to ignore," said Mr Deane.

In the survey, 59% of the contractors said they thought that rig activity would be higher next year.

However, now that commodity prices have retreated to more "normal" levels, companies may be reevaluating programs to reactivate and build more rigs and some projects may be delayed until prices begin to climb again.

Schlumberger/Reed-Hycalog expects available rigs will rise a modest 3% or so next year. "We base this belief on the momentum of the past year and the hope that prices won't fall much further," he said.

Active rigs, however, will probably experience a downturn. "We just don't think that this level can be sustained without those incredible gas prices. Rig activity could slow by 5% or so next year."

If this forecast is on target, utilization will drop to 85%. "Although this seems like a significant decline from this year's level, it still shows remarkable strength compared to most of the past 2 decades," said Mr Deane.