

# ReedHycalog rig census shows a stable US fleet

**FOLLOWING A YEAR'S absence in 2003, the US rig fleet census was resurrected by ReedHycalog and found that the fleet remains strong and achieved healthy utilization rates into 2003.**

This year marks the 50th anniversary of the industry's only such census.

Operators of US land rigs experienced the greatest increase in activity, buoyed by higher oil and gas prices, although as anyone in the business knows there remains concerns among oil and gas companies regarding the stability of commodity prices.

Since data was not collected during 2002, statistical comparisons contrast 2003 with 2001.

Highlights of the 2003 rig census include:

- The US rig fleet lost only three units in the 2003 census, now standing at 1,719 resulting from 172 deletions and 169 additions;

- The largest gain was attributed to rigs assembled from used components and parts (74 units) and newly manufactured rigs (48 units);

- The largest decline was attributed to rigs cannibalized or auctioned for parts (59 units) and rigs deleted in lieu of a large capital expenditure requirement (57 units);

- Rigs meeting the "active" definition totaled 1,334 in 2003 compared with 1,593 in 2001. Although this is a 16% decline from 2001, drilling has made a strong comeback from 2002's decrease;

- With decreased drilling activity, utilization dropped to 78% in 2003 from 93% in 2001. ReedHycalog estimates the 2002 utilization rate at about 67%;

- Industry consolidation continues as larger contractors (owners of more than 20 rigs) acquired 63% of the available fleet. The number of rig owners declined by 12 as a result of this consolidation;

- Based upon survey response, the fleet

size is not expected to change significantly in 2004 but present expectations are for slow and steady activity growth. ReedHycalog predicts the 2004 utilization rate to be 81%.

**John Deane, President of ReedHycalog**

## Rig Fleet Changes

Category	2003	2001
Previous census count	1722	1636
Total additions	169	182
Total deletions	-172	-96
Net change	-3	86
Total Available Count	1719	1722

## Rig Fleet Deletions

Category	2003	2001
Cannibalized or auctioned for parts	-59	-23
Large capital expenditure required	-57	-36
Moved out of the U.S.	-45	-6
Stacked > 3 yrs	-7	-28
Destroyed	-4	-3
Total Deletions	-179	-96

## Rig Fleet Additions

Category	2003	2001
Assembled from components	74	105
Newly manufactured	48	9
Brought back into service	37	56
Moved into the U.S.	10	12
Total Additions	169	182

who presented the rig census at the 2003 IADC Annual Meeting in Houston, said the available rigs in 2003 are virtually the same as those that were measured in 2001.

Although there was not a rig census in 2002, Mr Deane believes that activity is increased compared with last year but is lower than activity in 2001.

He said, however, that activity in 2001

was at an all time high and utilization was at a 20-year high, meaning that while activity is down from 2001 it doesn't mean that the industry is facing an unhealthy situation.

Drilling contractors responding to the census survey indicated that rig dayrates are up an average of about 6% over 2002 but they have been offset by some cost increases. Contractors expect maintenance costs to increase about 17% in 2003.

Labor cost have risen about 4% this year, and contractors are reporting some difficulty in finding experienced workers to crew rigs.

"For the first time that I can remember," Mr Deane said, "insurance costs were flagged in our survey as being a significant cost factor."

## AVAILABLE RIGS

In 1981 the industry had 5,644 available rigs in the fleet. For the next 19 years the availability of rigs has been on a steep decline until it reached bottom in 2000 when 1,636 rigs were available in the US fleet.

There have been some modest increases in the fleet since then, with 1,719 available rigs in the fleet in 2003.

The primary geographic areas that saw growth and availability of rigs are the ArkLaTx area, the Northern Rockies, the Gulf Coast and the Mid Continent Area.

In the marine fleet the only units that showed growth and availability were the inland barges.

## ACTIVE RIGS

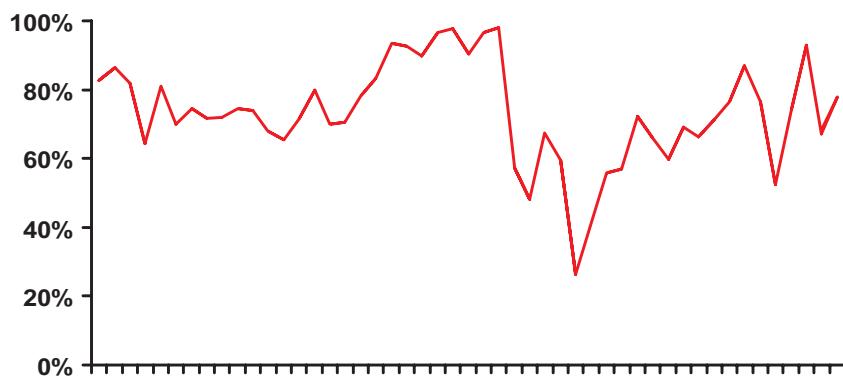
The rig census includes rigs that were active in the 45-day period when the census was conducted, which was between May 10 and June 23.

The census measured 1,334 active rigs, which was 259 less than counted in 2001, representing a 16% decrease.

"Remember that 2001 was a great year," Mr Deane noted, "so while we have

# Rig Utilization

1955-2003



dropped off from 2001 the utilization rate is still quite nice."

The 2003 utilization rate is 78%, slightly above the 50-year mean of 73%.

Focusing on only the past 20 years, however, indicates a healthier situation.

The utilization rate has been consistently increasing since 1982 up to the current levels, Mr Deane noted.

"We know it goes up and down and we know it swings around with commodity prices and activity, but it is encouraging to see that we are on our way back to some healthy utilization rates."

## FLEET DELETIONS

There are several interesting points to be made regarding deletions from the fleet in 2003 compared with previous years.

One of the more interesting categories of US rig fleet deletions is the dramatic change in rigs that have moved out of the US.

In 2001 there was a net reduction of six rigs from the US fleet moving into international areas.

However, since 2001 45 rigs moved out of the US, about 22 rigs per year seeking opportunities internationally.

"That is very indicative that perhaps return on investment on those opportunities outside the US is better," Mr Deane said,

"We are seeing some of our fleet move to Mexico and Canada and other areas to take advantage of better opportunities."

There were 23 units in the category of rigs exiting the fleet due to cannibalization or being auctioned for parts in 2001.

That compares with 59 in 2003, again accounting for a two-year period.

In 2001 the US fleet lost 28 rigs due to being stacked for three years or longer. Over the last 2 years there were only seven rigs stacked more than three years.

In total, there were 179 deletions for 2002 and 2003, about 90 per year, which is essentially flat compared with 96 total deletions in 2001.

## FLEET ADDITIONS

In terms of additions to the US rig fleet, the number of rigs assembled from components totaled 105 in 2001 but only 74 were added to the fleet in the same category during 2002 and 2003.

"If we read between the lines," Mr Deane said, "it would indicate that there are far fewer components available to assemble rigs."

"Given that the fleet bottomed out in 2000, we think this is an indicator of the health of our fleet."

"As the available rig fleet bottomed out," Mr Deane explained, "perhaps some of the iron that has been laying on the ground for many years has genuinely disappeared."

Perhaps the most stunning figure in fleet additions is the number of newly built rigs. The industry manufactured nine new rigs in 2001, but during the past two years 48 new rigs have been added.

"To put that into perspective," Mr Deane said, "since 1988 the fleet averaged 3.4 new rigs per year, so we have added more new rigs into the fleet in the last two years than we have cumulatively in the last 10 years."

Additions to the fleet totaled 169 rigs over a two-year period compared to 182 rigs during 2001.

The bottom line is that there were 1,722 rigs in the US fleet in 2001 and 1,719 units in 2003, only a three-rig decrease.

"We have essentially a stable fleet, however, the way we get to that stability is quite different than we have seen in the past," he said.

"A lot more rigs are moving out of the country. And there are a lot more new builds added to our fleet."

"The dynamics of the movement in our fleet is quite a bit different than past years," Mr Deane said.

## RIG OWNERS

A lot of consolidation has taken place in

the contract drilling industry and it is continuing in 2003, according to the census.

However, consolidation activity may be slowing somewhat.

Between 2001 and 2003 the number of rig owners was down by 12 companies, representing about a 6% drop, to 179 owners.

The 12 companies that were consolidated involved a total of 45 rigs, or about 3% of the fleet.

Considering that the number of rigs averaged about four per contractor, they were small consolidations and appear to have affected some fairly small contractors.

The 12-company decline compares with 17 in 2001, indicating that the consolidation curve is flattening.

Adding some perspective to the figures, there were 700 rig owners in 1987 and today there are less than 200.

#### CONTRACTOR CONCERN

Drilling contractors were asked in the survey to rank their top concerns.

In 2001 those top three concerns were crew availability, rig rates and availability of rig parts.

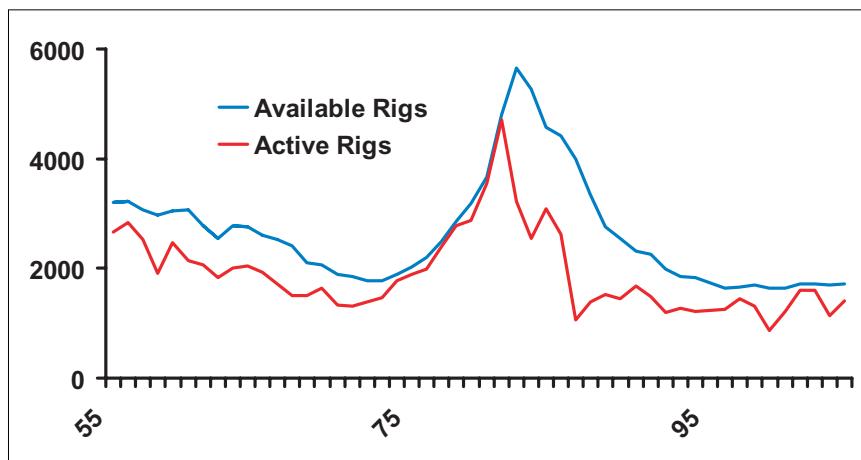
In 2001 when the industry was experiencing high utilization, there were few rigs to be put back to work and crewing the rigs was the main concern. Also, the industry was concerned whether it was making enough money from the working rigs.

Concern over availability of parts indi-

cated a high utilization rate and that contractors were trying to maintain the rigs and keep them running safely and

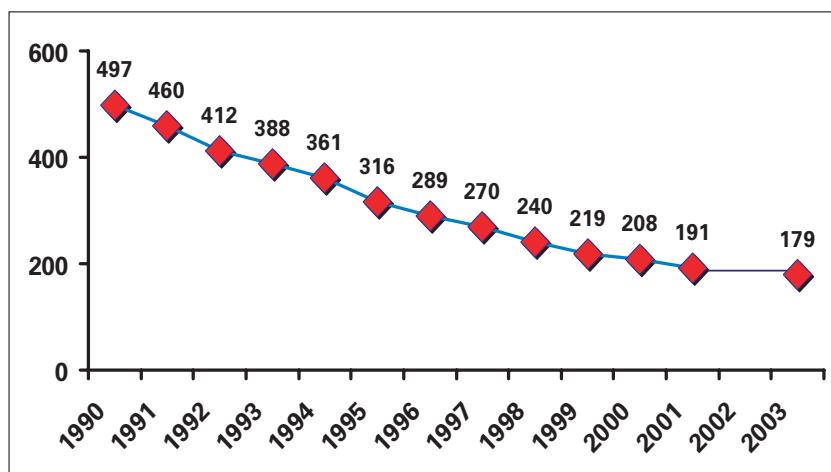
## 2004 Forecast

### Predicted Utilization = 81%



## Rig Owners

### 1990-2003



effectively, according to Mr Deane.

In 2003, rig rates and crew availability are still the top two concerns but they have changed places.

Insurance costs replaced availability of rig parts as the third highest concern. Insurance costs as a concern had not been in the top three for more than a decade.

#### FUTURE BELIEVED STABLE

"If we believe that this year's statistics and those from the last couple of years are indicators of where we are heading, and all of our contractors seem fairly confident that we will have stable commodity prices, we don't think the fleet will change much," Mr Deane predicted.

While he believes the rig fleet will remain at around 1,700 available rigs, he says it is logical to assume that activity levels will begin to approach those experienced in 2001.

"Perhaps not in one year but certainly they will improve," he said, "so we are predicting an activity level of about 1400 rigs, and that moves us to about 81% utilization rate."

"The census shows that our fleet is stable," he continued. "We think that the decline that started in the early and mid 1980s has bottomed out and we are on our way back up."

"It may not be real robust but we have seen some increases in our fleet since 2000."

"There is hope that there is more stability in oil and gas prices, and there seems to have been some stability recently," Mr Deane noted. "That will bode well for the industry."

"Certainly the health of the fleet appears to be far better than it has been in many, many years," Mr Deane concluded.