

2005 Chairman works for contractors' interests

FROM HIS DAYS as a farm boy in Colorado, **Ed Kautz** knew he never wanted to be chained to a desk, so he became a drilling contractor. Armed with a shiny new degree in mechanical engineering from Colorado State University, Mr Kautz, recently elected 2005 IADC Chairman, landed a job with **Exeter Drilling** in Denver in 1976. Newly placed in Exeter's management training program, he divided his time between the office and the great outdoors.

"This was an opportunity to do a little of both, you could go to the field or you could be in the office," said Mr Kautz, who today is Executive Vice President of United States and International Oilfield Services for **Ensign Resource Service Group Inc.** "My schedule was flexible, and I guess that's one of the things that attracted me to the business, to have the opportunity to be outside."

He was surely outside a lot, working his way from roughneck to toolpusher over the next five years. This was a real practical education in the fine art and science of drilling wells.

In 1981, though, the office beckoned and could not be denied. It was an opportunity to apply his hard-earned drilling skills in a new way—rig design. Named equipment engineer for Exeter, Mr Kautz was tasked with designing and building a new rig.

"I built a rig and performed design work on the components," Mr Kautz said. "The company's theory of gaining practical experience helped quite a bit."

Following the rig design work, he was given the responsibility of managing several of the company's rigs in the Rocky Mountains. In 1983, Mr Kautz was transferred to Oklahoma City as drilling manager. He was later promoted to division manager.

It was back to Denver and the Rocky Mountains in 1989 as President of Exeter's Northern Division, and in 1991 he was named President of Exeter Drilling, which was owned by **Oxy**.

In the early 1980s, Exeter was sold to **Peoples Energy**, which segued to **Mid-Con Corporation**. Through various mergers and buyouts, **Oxy** purchased

MidCon in the mid-1980s. The acquisition, however, was driven more by a thirst for **MidCon's** pipeline business than for contract drilling. In 1995, Exeter was sold to **Nabors Drilling**.



Ensign has 14 Automated Drilling Rigs (ADR) with two more under construction. ADR rigs are working in Canada, the US and Gabon.

Following the sale of Exeter to Nabors, Mr Kautz began working for **CAZA Drilling**, the United States drilling division of Ensign, as Managing Director and then was promoted to Vice President. He continued with CAZA in this role until April 2004 when he was promoted to Executive Vice President of United States and International Oilfield Services for Ensign, CAZA's parent company. He subsequently was transferred to Calgary.

Mr Kautz is now responsible for the company's non-Canadian drilling operations. In addition to CAZA in the US, this includes ODE, Ensign's Australia-based subsidiary with operations in Australia, New Zealand, Indonesia, Oman, Libya, Gabon and Argentina.

Despite living in Colorado for many years and now Canada, Mr Kautz is not a skier. "I like to play golf and travel," he explained, "and I mean traveling other than for business." Certainly he gets his share of business travel!

He and his wife Brenda also enjoy scuba diving in Cozumel and try to dive once a year. Although he's not a big gambler, he enjoys an occasional trip to Las Vegas to take in the sights and a few shows.

NEW RIGS AND TECHNOLOGY

Mr Kautz is emphatic about an improving land drilling business during the next couple of years. "There are some positive signs that the land market is well into its next up-cycle," he noted.

However, there is a caveat. "The only thing that I see to be cautious about is there are a lot of new rigs being built in Canada, but they are also putting a lot of rigs to work," he said.

"From a contractor's perspective, my concern is the potential for overbuilding. The industry may appear to be pretty good, but for contractors it is a fine line."

Canada is not the only strong market for which Mr Kautz has some concern. "You are beginning to see a lot of rigs and more activity in the US for newbuild and rebuilt rigs," he explained. "There are more new rigs coming into the market because used equipment is unavailable as they are used to rebuild existing rigs."

CAZA Drilling itself has rebuilt two rigs. A couple of additional rigs will probably be rebuilt in the near future, Mr Kautz noted. These units will be rebuilt with about half new parts and half existing components. About a half dozen of the company's rigs have been moved from Canada to the Rocky Mountains during the past couple of years.

Additionally, Ensign has built several new rigs that utilize the latest in automation technology. Dubbed the Automated Drilling Rig, or ADR, Ensign has had the design for about four years now. The market has recently begun to recognize the benefits of using them.

"This year we introduced the ADR to

Shell in its Gabon operations, and we've also just moved one to the US for work in the Rockies," Mr Kautz said. "The remainder are working in Canada, and Ensign currently has two more under construction and hopefully more to follow as market demand for this technology continues to grow."



Ed and his wife Brenda enjoy traveling, from diving in Cozumel with its warm beaches and white sand to high in the mountains.

Ensign designed and engineered the new rigs along with a Canadian fabrication company who is building the units under Ensign's supervision.

When the company rebuilds existing units or new rigs, it utilizes the latest in technology such as automated pipe handling. The entire rig can be operated with only three workers.

The ADR rigs are controlled with joysticks from an enclosed driller's cabin.

"Another crewman is operating the pipe handling system," Mr Kautz explained, "and there is no one on the drill floor anymore."

The new technology is finally taking root in the land side of the drilling business after being used offshore for many years, he noted.

Talking with other drilling contractors, he determined that some of the offshore drillers have never used a brake handle before and never seen a Kelly.

"We haven't seen that occur totally onshore yet, but it's trending that way," he said. "We're beginning to see the new wave of driller that has never touched a

brake handle and is running the operation using a joystick."

MARKET OUTLOOK

Despite an improving drilling market, Mr Kautz believes there are several reasons why operators haven't increased their North American exploration activity in light of record high oil prices and high natural gas prices. "Concern over the sustainability of prices is one thing," he



noted, "and the other is they have concentrated on improving their balance sheets for the past couple of years, which are in good shape for the most part now."

However, he also said that there has been some sustainability in commodity prices so there is more confidence in them now. Also, the US is essentially a gas market now.

"The other thing in the US is that there are not many operators looking for new reserves since the US is a pretty mature region," he said. "Geologists today are looking at evaluating projects or prospects to buy or sell and very few are looking for new oil or gas."

Nevertheless, the US drilling market has increased considerably the past couple of years and Mr Kautz believes that is being led by the Rocky Mountains.

"In the past there has never been the ability to take the gas out of the Rockies," he said. "The pipelines are in place now to move the gas, so there are a lot of opportunities as a result."

However, he said, a lot of Rocky Mountain gas is not new reserves but rather

gas known to exist but without a transportation system out of the Rockies.

In the international market, lead times are long and the cost of business is so high that the operators have been reluctant to do much exploration. He believes Russia will become a stronger market. A potentially very large market that is still an unknown is China, he said, where there is a growing demand for natural resources.

"A lot of natural resources and equipment are being imported into China because the population and its expanding economy are looking for more western technology and goods," Mr Kautz noted. "There is and will continue to be an increasing demand for energy and related products."

Regarding the seeming suddenly popular liquefied natural gas (LNG) market, Mr Kautz noted that everyone seems to want LNG but nobody particularly wants the facilities in their own backyards.

"They are building LNG plants worldwide with plans to bring it into North America, but I'm not sure where we are going to receive it at this point."

One aspect of LNG is drilling for adequate natural gas supplies to feed the gasification facility, but Mr Kautz stated that he has yet to see an increase in drilling activity in that regard.

IADC'S ROLE

Mr Kautz noted that IADC and its work on behalf of drilling contractors worldwide made a positive difference to the industry for the past 65 years. He intends to ensure that it continues to work for drilling contractors' interests for the next 65 years.

As IADC Chairman, Mr Kautz appreciates the value of cooperation between industry trade associations. IADC has a strong network it can draw on with other groups to advance the interests of the industry, including American Petroleum Institute, Independent Petroleum Association of America, International Association of Oil & Gas Producers (OGP), Society of Petroleum Engineers, Canadian Association of Oilwell Drilling Contractors, Association of Energy Service Companies and many others.

CAODC is currently cooperating and

working with IADC's Underbalanced Operations Committee to develop recommended practices for underbalanced drilling operations.

"Another example [of cross-border cooperation] is IADC's initiatives in safety and training," Mr Kautz said. "I have been working on that in Canada within our company divisions and that has led to cross-border training initiatives between Canada and the US."

Mr Kautz noted that training is one of IADC's pre-eminent areas of expertise. In addition to IADC's well-established WellCAP and RIGPASS programs, the Association is developing additional accreditation systems for the drilling industry. WellCAP Plus, which will be ready for industry use soon, is a higher level of the WellCAP supervisory course and is to be taken every other year with the traditional WellCAP course in alternate years.

IADC has been developing the combined

accreditation and certification program for ballast control and stability in conjunction with the Nautical Institute of London. The program is designed to fulfill IMO and flag state requirements for Offshore Installation Manger (OIM), Barge Supervisor (BS) and Ballast Control Operator (BCO) licenses for ballast control and stability courses.

IADC conducts a series of regional HSE meetings and holds full HSE Committee meetings in Houston throughout the year. They provide a forum for IADC's land-based HSE operations personnel and to learn from experiences of others. IADC also collects statistics on safety performance and issues safety alerts of wide interest to the drilling industry. The Association also maintains a comprehensive set of practical manuals and guidebooks on rig safety.

Additionally, IADC addresses OSHA issues such as personal protective equipment and environmental issues and initiatives on behalf of the industry.

IADC serves the needs of its members, whether land or offshore contractors. To take just one example, Mr Kautz cited IADC's longstanding efforts to ensure that off-road use of mobile equipment remains exempt from federal taxation.

Offshore, Mr Kautz pointed out, IADC monitors critical issues including helideck design, ballast water management and the switch to low sulfur diesel issues. All of these bear the potential to significantly impact the cost of operating offshore.

Similarly, IADC's Government Affairs Committee works to impact legislation that could increase costs to contractors, whether in the US or elsewhere around the world.

"IADC works to keep the contractors' costs down, and succeeds at it," Mr Kautz said.

To a drilling contractor association, there is no higher praise. ■