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Company Spotlight:

Latshaw Drilling Founder: Embrace New Technologies, but Make Rig Personnel Top Priority

In the oil and gas drilling industry's rush to embrace new technologies, it's important to maintain a proper perspective on the relative value added by those technologies.

But it's absolutely critical for a drilling contractor to maintain quality rig crews. The most advanced drilling technologies in the world can't compensate for a lack of top-notch personnel.

That's pretty much the drilling world view of Trent Latshaw, founder and owner of Latshaw Drilling Company. We recently had the opportunity to visit with Latshaw at his company headquarters in Tulsa to discuss the veteran driller's views on the state of the industry and his approach to the drilling business.

Getting bigger overnight

The usually low-profile Latshaw Drilling made headlines in late 2012 when it acquired Keen Energy Services, based in Stillwater, Oklahoma, from NYSE-listed Leucadia National Corporation.

The combination resulted in a total fleet of 41 drilling rigs—24 Keen plus 17 Latshaw units and 1,000 employees, at the time making Latshaw the second largest privately owned drilling contractor based in the U.S. behind Oklahoma-based Cactus Drilling and its 59 rigs.

That status may have been brief, as shortly after Latshaw made the Keen purchase, Sidewinder Drilling acquired Union Drilling, making for a combined fleet of 61 rigs, including two Union rigs under construction. However, with a rig replacement cycle still yet to run its course, those rankings are likely to change again before long.

And Trent Latshaw thinks a rig retirement cycle is definitely still under way.

"Older mechanical rigs are sort of a dying breed," he said. "That's not to say that there aren't a lot of them still working—in the Permian Basin, for example.

"A lot of the smaller independents don't care so much what kind of rig you have, whether it's an AC rig or a small mechanical rig that you can rig down, move, and rig up in 24 hours. They're all about: What is it going to cost me to drill my well? And if they can get a rig to do it for $14,000 or $25,000, you know which way they're going to go."

That said, Latshaw admits that with more and more of the fleet going to horizontal drilling, it makes it harder for smaller rigs to compete in a market that increasingly favors bigger rigs with top drives and walking systems to handle longer laterals and multi-well pad drilling. His company is no exception to the trend: "We modified 8 of our rigs in the last 6 months with walking systems, and we're still not through. Out of our 41 rigs, 33 have top drives."

With the Keen acquisition, Latshaw obtained a number of rigs designed to skid.

"Skidding accomplishes the same thing as walking, if you just want to drill wells in a row. If you want to move over and drill wells in a parallel row, it still works the same but you have to move the whole rig over. With a walking system, you can basically keep all of the 'backyard' where it's at and can move over sideways and start a new row—there are some additional efficiencies there."

Going forward, all Latshaw rigs are going to be modified for walking vs. skidding—currently, 60% have walking or skidding systems, although only about 25% of them are using these systems at present.

Rig retirement cycle

When it comes to talk of a possible overbuilt rig fleet in today's market, Latshaw contends it doesn't even begin to compare to industry's situation in the mid-1980s, when the US active rig count stood at about 4,500 and the nation's rig fleet totaled about 5,600—and the subsequent oil price collapse decimated the fleet itself as well as the ranks of operators and drilling contractors.

This Month

Company Spotlight

Latshaw Drilling Rig Fleet

RIG #	TYPE	HP	DRAWWORKS	RATED DRILLING DEPTH, FT	TOP DRIVES	WALKING	SKIDDING
Rig 3	mech	1000	National 80-B	16,000			
Rig 4	SCR	1000	Cont-Emsco D3	16,000	Canrig 275		
Rig 5	SCR	1500	National 110-UE	20,000	Canrig 350	X	
Rig 6	SCR	1000	Oilwell 760-E	16,000	Canrig 275		
Rig 7	SCR	1500	Cont-Emsco C1	20,000	Varco TDS-11	X	
Rig 8	SCR	2000	National 1320-UE	25,000	Varco TDS-11	X	
Rig 9	SCR	1700	Skytop Brewster NE-95	22,000	Canrig 500		
Rig 10	SCR	1500	Cont-Emsco C1	20,000	Varco TDS-11	X	
Rig 11	SCR	1000	Cont-Emsco D3	16,000		X	
Rig 12	SCR	1000	Oilwell 760-E	16,000			
Rig 13	SCR	1000	Cont-Emsco D3	16,000			
Rig 14	SCR	1000	Cont-Emsco D3	16,000	Canrig 275		
Rig 15	SCR	2000	Oilwell E-2000	25,000	Varco TDS-11	X	
Rig 16	SCR	2000	Mid-Continent U-1220-EB	25,000	Varco TDS-11		X
Rig 17	SCR	2000	National 1320 UE	25,000	Canrig 500	X	
Rig 18	SCR	1700	Skytop Brewster NE-95	22,000	Canrig 500		X
Rig 19	SCR	1500	National 110 UE	20,000	Varco TDS-11	X	
Rig 20	SCR	1500	Cont-Emsco C1	20,000	Canrig 500		X
Rig 21	SCR	2000	Oilwell E-2000	25,000	Varco TDS-11		X
Rig 22	SCR	1500	National 110-UE	20,000	Varco TDS-11		X
Rig 23	SCR	750	National 610-E	12,500			
Rig 24	SCR	750	National 610-E	12,500	Varco TDS-10		X
Rig 25	SCR	750	National 610-E	12,500	Varco TDS-10		X
Rig 26	SCR	750	National 610-E	12,500	Varco TDS-10		X
Rig 27	SCR	750	National 610-E	12,500	Varco TDS-10		X
Rig 28	SCR	750	National 610-E	12,500	Varco TDS-10		X
Rig 29	SCR	1000	National 80-UE	16,000	Varco TDS-11		
Rig 30	SCR	1000	National 80-UE	16,000	Varco TDS-11		X
Rig 31	SCR	650	Gardner Denver 500E	12,000			
Rig 32	AC	1000	JC-40	16,000	Varco TDS-11		X
Rig 33	AC	1000	JC-40	16,000	Varco TDS-11		X
Rig 34	AC	1000	JC-40	16,000	Varco TDS-11		X
Rig 35	AC	1000	JC-40	16,000	Varco TDS-10		X
Rig 36	AC	1000	JC-40	16,000	Varco TDS-10		X
Rig 37	SCR	1000	Cont-Emsco D3	16,000	Varco TDS-10		
Rig 38	SCR	1000	National 80-UE	16,000	Varco TDS-10		
Rig 39	SCR	1000	Oilwell 700E	16,000	Varco TDS-10		
Rig 40	AC	1500	Lelourneau 750K	20,000	Canrig 500		X
Rig 41	SCR	1000	Cont-Emsco D3	16,000			
Rig 42	AC	1500	NOV ADS-10SD	20,000	Varco TDS-11	X	
Rig 43	SCR	750	Oilwell 660-E	12,500			

Executive Profile: Trent Latshaw

Trent Latshaw built Latshaw Drilling pretty much the way he built his career: by his bootstraps.

The Palestine, Texas, native decided at an early age that he wanted to be a drilling contractor. After trying his hand at wildlife management attending the University of Alaska-Fairbanks, in 1973 Latshaw landed his first job in the oil and gas business as a roughneck in Alaska's Cook Inlet. Switching to petroleum engineering at Texas A&M, he later ended up working as a drilling engineer for Parker Drilling and then ARCO in Alaska.

Still in his 20s, Latshaw launched his contract drilling business with two new diesel-electric drilling rigs (1,000 hp and 2,000 hp) in 1981 working jobs in Oklahoma. With the subsequent industry bust, he moved the rigs to South Texas and the Gulf Coast but ultimately relinquished the two rigs to his lender.

In the years that followed, Latshaw did some consulting work while he raised funds to buy equipment. During 1985–1992 he bought at auction and from financial institutions about $100 million worth of rigs for about $5 million and subsequently turned that effort into an asset play, selling 9 of the 10 rigs he bought to overseas customers for about $20 million.

By reinvesting his profits in the business, Latshaw bought more equipment and refurbished his sole remaining rig for about $3.5 million and put it work in North Texas and then in the Barnett Shale starting in 2003.

He was able to negotiate some long-term contracts with Chesapeake Energy and XTO to build some new rigs. Resisting the temptation to link up with partners or investors in favor of a senior debt deal, he ultimately secured the financing that resulted in the construction of 11 rigs during 2005–2007 and the subsequent addition of 1 newbuild per year for the next 4 years. Except for the original mechanical rig, all were SCR rigs.

Keen acquisition

With 17 recent-vintage rigs in his fleet, Latshaw made a deal that proved transformative for his company—acquiring Keen Energy Services in 4Q 2012. That boosted the Latshaw fleet to 41 rigs, including two Keen units under construction, and making the company the second-biggest private drilling contractor in the U.S. at the time. It also added a transportation business—30 trucks, 30 trailers, and 4 hydraulic cranes, all fairly new.

Latshaw wouldn't disclose the transaction price but described it as attractive—and one that again was financed through debt.

Unless a 3-year contract for a newbuild pops up, Latshaw says he just wants to concentrate on the existing business, upgrading the former Keen rigs and paying down debt. He wants to continue to grow his business, but "going public is probably the last thing I'd want to do."

"I don't think industry's in any danger of a massive overbuild of rigs," he said. "That doesn't mean there won't be these cycles in which rigs are being laid down, like in '08 and '09, when gas prices [collapsed] and you had a surplus of rigs.

That said, the number of newbuilds entering the fleet has dwindled, yet Latshaw questions the need for any more state-of-the-art newbuilds to be added to the fleet today when some of these premium rigs recently having entered service are already getting stacked.

Equally puzzling for him is the willingness of some operators to still commit to lengthy term contracts for these premium newbuilds.

"If I'm an operator, why would I want to commit to a [newbuild] AC rig under a 3-year contract when I can go find an existing AC rig that's stacked and maybe 3 years old that I can commit to for 6 months or a year?"

Latshaw has signed a few term contracts, but the terms are relatively brief.

"We're seeing some term contracts for certain rigs, SCR or AC rigs with top drives, for 1-year contracts. Some are for 6 months, but 1 year is the max. For a 3-year contract, sure, I'll build a rig.

"That's not to say we might not build a rig on spec, depending on market conditions. But we're not going to do it with a whole bunch of leverage."

When Latshaw was building his company, after a large build-up in 2005-2007, he was building one rig a year on spec from cash flow: "I wasn't going out and borrowing additional money to do it. If I got it to work, then I'd start on another one, if I thought the market dictated it. It takes me about a year to build a new rig."

Current status

At present, Latshaw has a few rigs stacked but also has put several units back to work at the same time others have laid down—"kind of trending sideways."

He also sees day rates remaining largely stable: "Our 1,500 hp top drive/walking rigs are in the low $20s, and they're stable there."

He's also not that concerned about the margin squeeze some of his competitors have been bemoaning lately.

"Labor costs—which are about 75% of daily operating costs—are pretty steady," he said. "We haven't had any wage increases in a while, and I think we're competitive in the market—pretty much in the upper 30%. I don't see wages going anywhere up or down."

If the gas drilling ever starts to pick up again in response to, say, $5–6/Mcf, Latshaw thinks the rig market could tighten up again in a hurry.

Market shifts

As is always the case in this cyclical industry, the market can change pretty abruptly; today's hot region can cool off and vice-versa. So regional flexibility is an imperative.

"Three years ago, East Texas was our concentration of activity. But gas prices started to get soft, and oil drilling was starting to pick up. At the time some folks in the Permian Basin were starting to look for some better rigs.

"We started a migration and left East Texas for the Permian. Up until that time we only had one rig in the Permian, hoping that we could get it out of there because we thought it was a dead basin. So then we slowly started to migrate west and gradually moved all of our rigs out of East Texas and moved them to the Permian. We had one rig in the Eagle Ford that recently went out to West Texas."

For now, with 19–20 rigs in the Permian, Latshaw has almost half its rig fleet there and the other half in Oklahoma.

"Right now I don't see that changing, but 5 years ago, I didn't see East Texas changing either." There were some complaints and some turnover among crews caught up in the East to West shift in Texas, but for the most part he had little difficulty recruiting hands from East Texas and Louisiana.

"The only change we made was to go from 7 on/7 off to 14 on/14 off, because it takes a day to drive out to West Texas or New Mexico."

Are AC rigs really worth it?

While Latshaw acquired some AC rigs with Keen's fleet, he certainly isn't as smitten with them as some of his competitors are.

"There are certain things with an AC rig that are beneficial, but you also pay for that."

He claims his customers want to see the added benefit of hiring an AC rig vs. an SCR rig that goes beyond a simple breakeven on efficiencies gained vs. the added cost. His customers tell him that if it's nothing more than a wash, then SCR rigs are fine.

Latshaw acknowledges that most of the newbuilds entering the market are AC rigs and that that trend is likely to continue—but for the most part, they are replacing mechanical rigs, with a few SCR replacements mainly being old, obsolete units. "You look at the rig fleet…and there are still a lot of SCR rigs out there."

Many of the SCR rigs working today were built around 2006, Latshaw says, and they could last another 20 years. So SCR rigs will remain a key part of the rig fleet, unless the operators' consensus moves exclusively toward favoring AC rigs, "and I don't think that's going to happen."

He isn't convinced that an AC rig offers that much in the way of added benefit over an SCR rig, contending that the equipment used by both models is largely the same, from mud systems to gen sets to top drives.

The one noteworthy advantage an AC rig offers, says Latshaw, is weight control on bit: "You've got some nice computerized technology there, where you get some nice consistent feed off your drilling compared with.... conventional drawworks."

But Latshaw contends that his SCR rig crews can trip pipe faster than an AC rig can, "and that's a lot of your time when you're drilling a well. Maybe they can drill faster because of the feed-off, but we can trip faster, and our rig rates are less."

He notes, "As far as hoisting dead weight out of the hole, pipe to change the bit, in a lot of cases [an SCR rig] can actually trip faster [than an AC rig] because that thing is computerized, and you can only go a certain speed, and the computer takes over and slows down while you set the slips."

Latshaw adds that AC rigs have their own unique maintenance issues as well: "Troubleshooting these electrical computer components sometimes is a nightmare."

AC bandwagon?

To certain degree, Latshaw contends, much of the growth in demand for new AC rigs stems from some exceptional marketing efforts on their behalf to Wall Street analysts and major oil companies by drillers heavily invested in building them.

It wasn't necessarily the most active operators in the U.S. who were signing all these contracts for state-of-the-art AC newbuilds, he points out. At the same time, they also appealed to the new generation of drilling engineers who grew up with computers and video games and who might be dazzled by a driller's console studded with joysticks and computer graphics.

In such circumstances, drilling efficiencies and drill times might even be beside the point, he added.

Latshaw also acknowledged that these factors have helped create something of a bandwagon effect that convinced the most active independent operators and his company's competitors—and even his own company, perhaps grudgingly—to sign on with the campaign to add AC rigs to their fleets.

Sometimes, he points out, a driller has to accommodate his customers' preferences whether he shares them or not.

"If I want to be able to work across the spectrum [of potential customers] and be able to work with [a major oil company], then I'm going to have to get on board with what the customer wants in new technology."

Focus on efficiency

For all the talk about enhancing drilling efficiencies, there may be practical limits on how much more technology advances can be made in terms of improving drilling efficiencies, according to Latshaw.

"You know, 90% of the improvements in drilling we've seen in the past few years are all downhole related—new PDC bits, mud motors, rotary steerables, etc.

"Let's face it: A drilling rig is nothing more than a huge block and tackle system to hoist dead weight in and out of a hole.

Latshaw Innovates Hybrid Summer Rig Job to Train Future Drilling Engineers

Latshaw Drilling has initiated a novel program that helps college students focused on drilling engineering gain valuable, hands-on experience in the field: a summer job that is a hybrid of roughneck and drilling engineer trainee.

Ultimately, both the driller's customers and his own business could benefit from the program in a material way. But founder and owner Trent Latshaw contends that the primary motive was recognizing the oil and gas industry's urgent need to develop fresh new talent as the baby boomers exit the business.

How it got started

The initiative has its roots in an American Association of Drilling Engineers meeting where there was a panel session on what's it like to be a drilling engineer. At the end of the Q&A that followed the panel, Latshaw stood up to address the gathering.

He noted that in the past he had tried to hire a couple of petroleum engineering students for summer jobs and it just didn't work out.

Addressing especially the petroleum engineering students in attendance, Latshaw stressed the value of future drilling engineers having hands-on rig experience, even as a summer job roughnecking—in particular how they, as drilling engineers working for an operating company in the future, might better appreciate what the rig crews have to deal with day to day and how, in turn, the rig personnel they'd have to deal with might have more respect for them because of that experience.

Latshaw told the audience that he was looking for a "few good men" and invited the students to see him if they were interested in summer jobs. Afterwards, "I was swarmed. I probably had 25 guys come up to see me, and everybody said they would love to have that job working on a rig."

With only three or four positions available, Latshaw encouraged the students to submit their resumes via email, along with a note explaining why he should hire them. Then he contacted some of his customers to ask them if they were interested in participating in his ad hoc program because of the benefits that might accrue from later hiring a drilling engineer with some real experience on a rig. He ended up hiring four of the students and was able to persuade his customers to chip in to cover half the pay for three of them.

Training

One hurdle in this program was that the students' jobs were strictly summertime jobs, and Latshaw's roughneck training program lasts 3 months—part of the company's insistence on intensive training at every level of a rig crew.

"I didn't want to put them out there with just a scrub brush because they're a worm, but at the same time didn't want to just put them out there as a roughneck, because we don't do that anymore; we run them through our training program first."

So the company developed an accelerated training program for these student summer hires, accompanied by a mentor.

"So they're doing a roughneck's job, but also when we're at a certain point in a well, such as running casing or doing a cement job, we shift them over to the company man" who can mentor them on the technical challenges involved in drilling the well.

Results

The results of the program exceeded Latshaw's expectations.

"It got to where [the students] were such good hands that the other guys on the rigs were trying to talk them out of going back to college—because they were such good hands, they wanted them to stick around."

While there might be some tangible benefits to Latshaw's company from this kind of program, they aren't immediate or substantial. The real motivation, he says, is his sense of obligation, shared with some operators, to train the next generation for the oil and gas industry's future work force.

"If that's the case, then how do we get more efficiency out of our operations? How do we improve the flat times—running casing, cementing, minimizing downtime on the rig, improving rig up/rig down times?"

He noted that customers and drillers alike these days are focused more sharply on rig moves. "We are very sensitive to that, and we try to do a lot of things to improve our rig moves. Unfortunately, a lot of our downtime on rig moves is waiting on trucks."

There's also a little bit of NPT perhaps associated with safety measures, but that's a small price to pay for embracing a safety culture, according to Latshaw. Whereas some smaller companies might be interested in getting their wells drilled as cheaply as possible and might be willing to look the other way, that doesn't fly with Latshaw. He says he refuses to risk the safety of his crews just to appease an operator who wants a well drilled faster.

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Market Dynamics

We recently initiated our analysis of 2Q 2013 data for drilling efficiencies among the major unconventional plays. The preliminary results show that the industry average spud-to-release time for several plays appears to have increased, reversing the trend of steady improvements in drilling efficiencies. Looking at the plays where the industry average spud-to-release time increased by more than 1 day reveals that the majority of those plays are oil and high liquids-content plays.

We didn't think that was just happenstance, since the price of WTI has remained mostly in the $90s from 1Q 2013 through 2Q 2013 and rising into the $100s starting in 3Q. Sustained high oil prices have historically been a catalyst for increased activity, and that appears to be the case here—with a resulting decrease in drilling efficiencies.

One of the plays that showed a decline in drilling efficiencies was the Eagle Ford, where the industry average rig spud-to-release increased by 2 days in the second quarter. Looking at the data revealed that the extra time wasn't a result of extending laterals, as the average for that metric remained flat between the quarters. Instead it was an increase of 17% in the number of operators drilling horizontal wells in the play. Some of those operators hadn't been continuously drilling horizontal wells in the play previously, and their average spud-to-release times were greater than those of the more established operators, and so the industry average was pulled up.

In the Wolfcamp it was the same case. In the second quarter, the industry average spud-to-release time for a rig drilling a horizontal Wolfcamp well increased by 5 days. There were 9 operators that drilled a horizontal Wolfcamp well in Q2 that didn't drill one in Q1. Out of those 9 operators, 4 of them had never drilled a horizontal Wolfcamp well until 2Q 2013.

Rig Count by Company Classification

Company Class	Rigs	MTM Chg.	YOY Chg.	Share
Majors	111	4	(43)	7%
Large Cap	658	(22)	11	41%
Mid Cap	148	(14)	(176)	9%
Small Cap	66	(1)	19	4%
Private Companies	632	41	10	39%
Total	1,615	8	(179)	100%

Rig Counts by Region

Region	July-13	MTM Chg.	YOY Chg.	Mkt. Share (%)	Utilization
Gulf Coast	56	2	(10)	3%	54%
Permian Basin	454	(5)	(94)	28%	75%
Midcontinent	315	6	14	20%	79%
Rocky Mountains	314	10	(21)	19%	77%
South Texas	218	(1)	(25)	13%	71%
ArkLaTex	78	-	(6)	5%	68%
California	34	(7)	(14)	2%	50%
Appalachia	112	1	(17)	7%	66%
Other	34	2	(6)	2%	56%
U.S.	**1,615**	**8**	**(179)**	**100%**	**75%**

Total U.S. Land Rigs by Operator Class

Operator Class	Rigs	MTM Chg.	YOY Chg.	Operators	MTM Chg.	YOY Chg.	Avg. Rigs/ Operator
10+ Rigs	824	(34)	(181)	32	(2)	(3)	25.8
4-9 Rigs	311	12	(7)	52	(1)	(2)	6.0
≤3 Rigs	480	30	9	360	4	(1)	1.3
Total	1,615	8	(179)	444	1	(6)	3.6

Total U.S. Land Rigs by Contractor Class

Contractor Class	Rigs	MTM Chg.	YOY Chg.	Contractors	MTM Chg.	YOY Chg.	Avg. Rigs/ Contractor
Large Fleet	543	3	(50)	3	-	-	181.0
Mid Fleet	645	(9)	(119)	23	(1)	(5)	28.0
Small Fleet	427	14	(10)	154	3	1	2.8
Total	1,615	8	(179)	180	2	(4)	9.0

While there was an increase in the operators, the quarterly average rig counts remained mostly flat, as some of the operators with more rigs in those plays scaled back a little—and that is noticeable in the 10+ active rigs operator class.

The 10+ rigs operator class total count reached a 3-year low on the drop of 34 rigs from the previous month. The current count is now 71 rigs below the January count. A net loss of 15 rigs by the top 10 operators combined with the loss of 2 operators in the 10+ rig class led to the large drop this month. The 4–9 rigs group's total count, benefiting from the drop in the 10+ rigs count, settled over 300 for the first time this year. The 3 rigs or fewer total count reached a 2013 high this month.

Available Rigs by Region

Region	July 13	MTM Chg.	YOY Chg.
Appalachia	47	(7)	-
ArkLaTex	30	5	(33)
California	30	4	9
Gulf Coast	46	4	7
Midcontinent	75	(12)	(6)
Permian Basin	121	(13)	3
Rocky Mountains	73	(7)	(15)
South Texas	66	(1)	(5)
Other	27	6	(29)

Rig Counts, Major Unconventional Plays	July-13	MTM Change	YOY Change	Marketed Utilization	Market Share (%)
Barnett	29	7	(14)	74%	3%
Fayetteville	13	(1)	(3)	65%	1%
Haynesville	39	3	(3)	89%	4%
Marcellus	75	(3)	(26)	72%	7%
Arkoma Woodford	1	-	(8)	50%	0%
Bakken	156	1	(14)	75%	14%
Eagle Ford	192	(4)	(27)	76%	18%
Anadarko Woodford	36	-	(5)	75%	3%
Ardmore Woodford	18	3	7	90%	2%
Utica	30	2	11	66%	3%
DJ Basin	46	4	12	92%	4%
Granite Wash	59	7	(22)	72%	5%
Mississippian	78	(10)	17	60%	7%
West Texas/New Mexico	319	1	(47)	69%	29%
Major Unconventional Rigs*	**1,093**	**10**	**(122)**	**72%**	**66%**

*Major Unconventional Rig Market Share based on total U.S. counts

The Mid Fleet contractor class total count fell to its lowest level of the year and is currently 13 rigs below the 2013 average. In July, the Small Fleet contractors' class tied its 2013 high, reached in April, and is currently 18 rigs above the 2013 average.

Chevron closes the month up 5 active rigs, its highest count since February, leading to a net gain of 4 rigs for the Majors company class—a YTD high. The Large Cap class is at its lowest count of the year, leading to its lowest market share of the year, now down 4 percentage points YTD. The Private Companies class increased its market share by 2 percentage points this month and has picked up the 4 percentage points lost by the Large Cap class this year. The current Mid Cap class count is lowest count for the year.

The Midcontinent active rig count increased by 6 rigs in July to reach its highest count since June 2012, while the Rocky Mountains count reached its highest count since last November. The California count suffered its largest loss YTD this month and dropped back below 40 rigs after closing out the last 3 months above that mark. The Permian Basin count seems to be stable in the 450's over the last several months. Despite the YOY loss of 94 rigs in the Permian Basin, the number of horizontal rigs there is up 17 YOY, while the number of AC rigs in the Permian Basin is up 25 YOY. Currently, the Permian AC rigs account for 20% of the total active AC rigs, whereas this time last year it was only 18%.

With the marketed count now catching up to the more stable Permian Basin active count, the number of available rigs in the region is at its lowest tally since last July. The 500–999 hp class accounts for 63% of the available rigs in the Permian Basin, up from 52% last month, which could explain why there was a drop in the day rates this month for a 500–999 hp Permian Basin rig. The 500–999 hp available rigs in the Permian Basin make up 38% of all of the available rigs in this class currently in the U.S.

The Mississippian active rig count closed out July below 80 for the first time since 4Q 2012, while the Barnett reached its highest count since March of this year. The DJ Basin active count, mostly comprising Niobrara rigs, is at an all-time high and up 13 rigs YTD. The Granite Wash count has also seen a slight rise in the number of active rigs and is just a hair below the 60-rig mark, something that it hasn't been at since December of last year

Personnel crucial

A conversation with Latshaw about the drilling business tends to focus on a maxim we heard several times: "It all comes down to how you treat your people."

He contends the emphasis on personnel should remain topmost for a drilling contractor, especially in the context of adapting to new technology.

But that doesn't mean he indulges even experienced rig workers who are reluctant to embrace technology.

"You get on board with new technology or get left behind. Computers are just another tool. You have to learn new skills, just as the previous generations have."

That said, if anything, people are more important to the drilling business than ever before, regardless of the fancy bells and whistles that come with new technology.

"You can get a brand AC new rig and put [an incompetent] crew on it, and they'll have that sucker torn up in a heartbeat," Latshaw said. "You can have an old, junky mechanical rig and put a good crew on it, and they'll have that sucker humming and outworking some of those high-tech rigs."

Again, the truism holds that the drilling business is a "people business"—and Latshaw applies that to his own people as well as to his customers.

At some of the bigger contractors, "you're just part of a cast of thousands, you're just a number. When a rig goes down, you're just out of a job."

When a Latshaw rig lays down, the company tries to keep the affected crew employed by putting them to work in the yard or sending them to other, active rig locales to fill any turnover gaps.

Since the big collapse in 2009, when he had to lay off a few low-level workers—while retaining key personnel who had been with the company a long time—Latshaw has strenuously avoided layoffs.

"Last fall, when a lot of rigs went down because [operators] outspent their budgets, I kept everybody. It cost me through the nose to do that, but I figured that after the first of the year more rigs would go back to work, and so I didn't want to have to look for hands, to start from scratch—and it paid off in the long run."

Every driller experiences heavy—relative to other industries—turnover. Most turnover is at the roughneck level.

But a couple years ago Latshaw was losing rig managers to consulting jobs.

A drilling contractor just can't compete with consulting compensation, he noted, which can often run to $1,500 per day.

"But it's like the spigot suddenly got turned off, and we haven't lost anyone to a consulting job in a long time."

Still, Latshaw found that there were two benefits from this trend: 1) It created an opportunity to promote someone from within the company to rig manager, and 2) it sometimes brought his company new business, as ex-Latshaw employees would recommend the drilling contractor to the operator they were consulting for.

Hiring, training improvements

The main way Latshaw tackled the challenge of worker retention was by tightening up the company's hiring process.

"Historically, the way most rigs got their crews was by someone showing up at the rig site looking for work and being told they'd call if the rig manager found himself short-handed. There wasn't much of a screening process."

Previously, the company left it up to the rig managers to do the hiring under the "mistaken impression" that because they're the ones who have to work with the new hires, they're the ones who should do the hiring.

So Latshaw shifted the hiring process to its Tulsa headquarters and made it much more stringent. A crucial first step was to incorporate hair follicle testing—a more expensive but more reliable approach—in its pre-employment drug testing.

"That alone weeds out a lot of the recurring riff-raff who keep moving on from one company to another because they can't pass a drug test."

But the driller took it a step further. Latshaw recognized that some employees were used to dealing with only the less-conclusive—and more easily defeated—urinalysis for random drug testing once they passed the initial hair follicle test. The company then imposed a standard of hair follicle testing for the random tests as well. That cost the company some employees, but Latshaw was assured that their crews stayed clean.

Another key part of the screening process for prospective employees entailed instituting a work steps physical examination program because the company was getting "job candidates coming in with bad backs or other preexisting problems we didn't know about, and next thing you know we've got an expensive workmens' comp claim on our hands."

In short, Latshaw holds to the cliché: Hire tough, manage easy.

"Spend more upfront time in your hiring process, and it's easier going down the road. And we've cut our turnover in half."

Latshaw is also a strong believer in promoting from within for drillers and rig managers. We don't want to hire a driller off the street just because he has 5 years of experience with [a bigger contractor], unless we don't have any other option.

"We have an assistant driller program, where we always have three or four of those guys in training.

We have a junior rig manager program, where we train those guys. We have an in-house training program for roughnecks."

Even at that level, the company tries to avoid hiring people just because they had roughnecked at another driller and relies heavily on personal recommendations from people they know that are based on the prospect's character.

And for Latshaw himself: "Much like Southwest Airlines, we like to hire for attitude and train for skills."

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