

# DRILLING

C O N T R A C T O R

Official Magazine of the International Association of Drilling Contractors

MAY  
JUNE  
2009

## LAND DRILLING LOOKS TO A BETTER TOMORROW

- Many hopeful of strong recovery in 2010
- New-concept rig design driven by 'crisis'



### OFFSHORE DRILLING

Gulf of Mexico Shelf, deep-water face disparate futures

### COMPLETIONS

Innovations filling in technology gaps 30,000 ft deep

ALL DRILLING, ALL COMPLETIONS, ALL THE TIME





Latshaw Drilling's 1,500-hp Rig 5 (left) and 2,000-hp Rig 15 are both drilling in East Texas. Company president Trent Latshaw believes it may take a couple of years for the industry to work through this downturn.

IT'S CERTAINLY NO secret that US land drillers aren't having a great year. There are a lot of bad news out there – natural gas prices down to around \$3/Mcf, a rig count hovering near the 1,000 mark, and massive layoffs just as green hands were finally trained and employment started to stabilize.

So the question on a lot of people's minds is: How much worse will this get?

The truth is, nobody can answer that question with any genuine certainty at this point. Some people are forging ahead with a sense of optimism that the absolute worst is behind us, while others look back at the 1980s and '90s and pray that history won't repeat itself.

**Wm Stacy Locke**, president and CEO of **Pioneer Drilling**, took the optimistic approach, commenting in late March, "I would not be surprised by a faster natural gas price recovery than people may think today. I feel like the rate of decline is beginning to slow week over week, and it suggests we're nearing a bottom. I'd say the bottom is probably 150-250 rigs away."

For perspective, the **Baker Hughes** US rig count for the week ending 27 March was 1,143. Just months earlier, the same count recorded a high of 2,031 active rigs for the week ending 12 September.

"With the rig count having dropped 50% in six or seven months, there will be a material effect on natural gas production," Mr Locke continued. "We'll see that start to develop as we move into summer and certainly as we move into fall. I think then you'll see a more abrupt correction in natural gas prices."

At **Latshaw Drilling**, president **Trent Latshaw** said he also hoped that the bottom is near, yet his outlook was slightly more cautious: "The drop seems to be slowing down some, but just because it's slowing down on a weekly count doesn't mean it can't keep going for a long time. I think we've still got some more (rig releases) to go, but hopefully we got the biggest bulk of it behind us now. But who the heck knows?"

It was only in hindsight that we realized how long the '80s downturn really lasted, Mr Latshaw pointed out. "We thought we hit bottom in '86 when oil prices did,

but then we found out 13 years later in 1999 that the rig count really bottomed out in 1999, at 400-plus rigs. (Now we know) that downturn lasted 17 to 19 years before things really turned around in 2000 and 2001."

Certainly, he hopes the current slump is "not another two-decade deal."

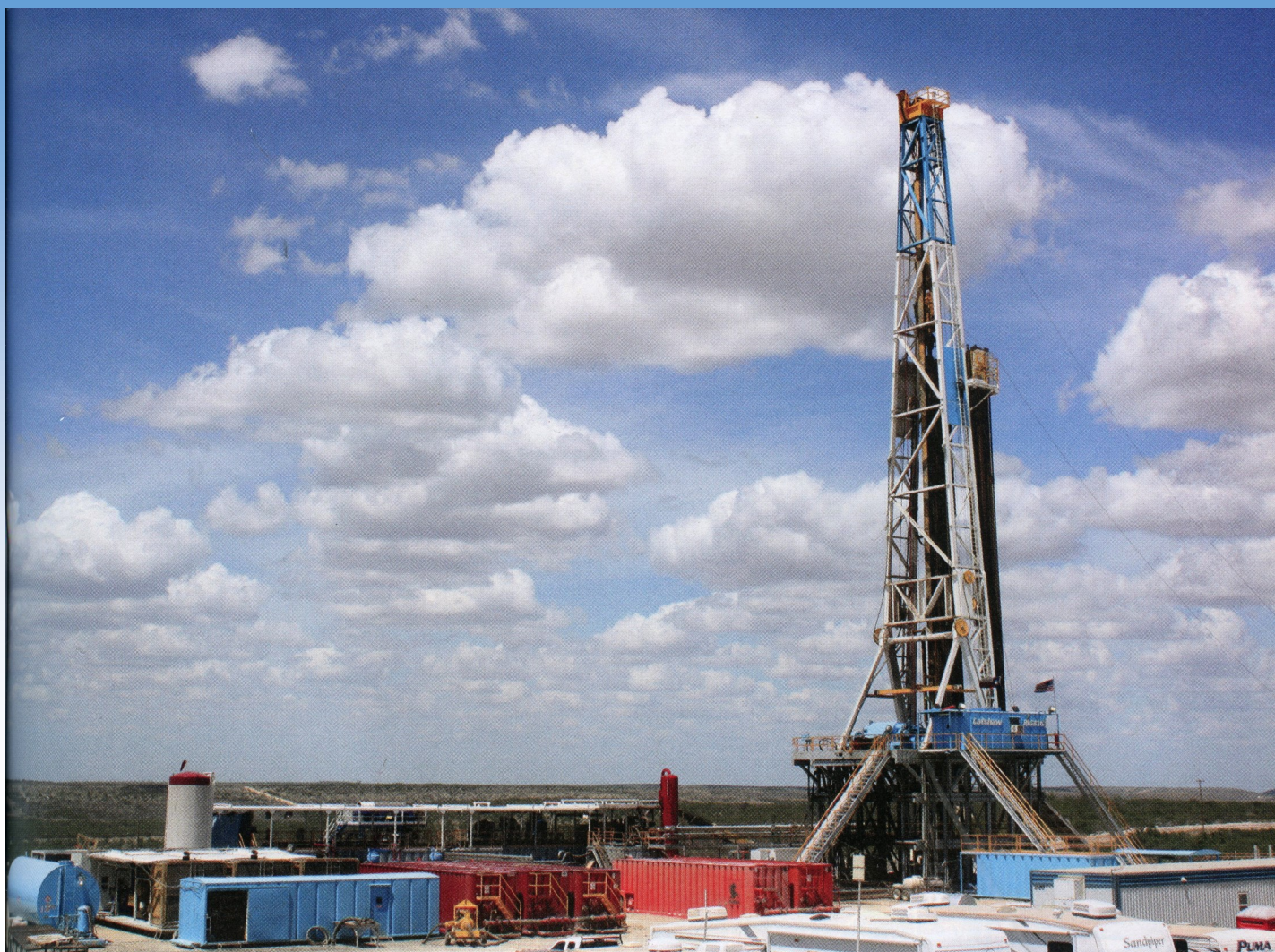
"My personal opinion is, it's going to take at least a couple of years to work through this, both in the economy and the surplus of natural gas," he said.

**Richard Mason**, publisher of the **Land Rig Newsletter**, echoed the '80s comparison and offered a mix of hope and glumness in his assessment: "This is as tough a market as we've seen since 1999 and seems to be angling for sort of a 1986 repeat in terms of severity."

He contends that the rig count has actually fallen more deeply than is generally understood through public rig counts, adding that his own count was down to 964 as of mid-March.

"We've also seen the first rigs go to the auction block, which may be the first rigs





Permian and Anadarko basins, all of which are drilling for oil. "We've been putting some of our additional rigs that had been laid down back to work," Mr Latshaw said, noting that his fleet utilization will reach 95% in Q2. "Pretty soon, we're going to be out of rigs."

Latshaw Drilling acquired **Keen Energy Services** in October 2012, "just as everybody ran out of budget money and had to shut rigs down. We got caught up in that because not all of our rigs were under term contracts," Mr Latshaw explained. "In 2013, we were working through that, and people had new budget money, and oil prices actually stayed quite a bit higher than most people were anticipating throughout the year." Activity started to pick up by late 2013, and Mr Latshaw said that trend has continued into 2014. "It has some more running room. I don't think it's a rocket ship to the moon by any means, but I think there is still some room for increase in activity."

Dayrates are on the upside, as well. Mr Latshaw estimates dayrates have increased year over year by 10-15%. "They've been slowly increasing. For a 1,500-hp, top drive, walking rig, depending on the geographic area, the average we're seeing is in the \$21,500 to \$23,500 range."

In Q4 2013, Latshaw Drilling deployed two 1,500-hp newbuilds to the Permian Basin under one-year contracts. The SCR-powered Rig 19 is completing horizontal development work for **Energren**. Rig 42, an AC-powered rig, is drilling horizontal development wells for **Laredo Petroleum**. Both rigs are capable

of walking, and each features a top drive, which has become a key enabler for horizontal drilling. "Almost 100% of what we're doing is horizontal," Mr Latshaw noted. "Every rig we have running has a top drive."

Further, "the rig du jour is 1,500 hp," Mr Latshaw stated. His fleet includes some 1,000-hp rigs that are essentially drilling the same wells as a 1,500-hp rig would, and "we also have some 2,000-hp rigs doing the same, but ideally everybody wants a 1,500 hp," since the higher horsepower rigs typically have bigger – 1,600 hp – mud pumps, he explained. Another feature that operators are requesting is upgraded mud pumps, from 5,000 psi to 7,500 psi. The increasing use of downhole motors, rotary steerables and the wellbore hydraulics associated with horizontal drilling are driving the demand for this increase, he said.

Multiwell pad drilling also has made high mobility a necessity, not only for newbuilds but also for older rigs. This is true particularly for development drilling programs where there can be two to six wells per pad. "We've been retrofitting quite a few of our existing rigs to put walking systems on them," Mr Latshaw said. His company now has 13 rigs with walking systems and

**Above:** Latshaw Drilling's 2,000-hp Rig 16 is a Mid-Continent U-1220-EB rig capable of skidding. The SCR unit is currently working in the Permian Basin for Apache.