

Drillers show signs of life as rigs come back

Two years after the slump began, key oil patch figure increases by nine

By Collin Eaton and Jordan Blum | June 3, 2016 | Updated: June 3, 2016 9:26pm

The U.S. shale oil industry may be coming off life support, though many caution it will still take time to recover from the worst downturn in a generation.

U.S. companies sent nine drilling rigs back to the West Texas and other oil patches across the



country this week, the first significant sign of recovery in the dusty regions that were at the center of the biggest domestic energy boom in 40 years.

It could mark another turning point for the industry, an end to the long financial drought that has devastated the service companies that support thousands of jobs in Houston. It comes just a few weeks before the two-year anniversary of the start of the oil bust.

"It'll come back," said Russell Robinson, a corporate salesman at Choice Completions, a 2-month-old oil field services startup in Houston. "You can't live without oil, unless you want to ride a horse and buggy.

You just had some people open the spigot a little more than they should have. We're all excited it's coming back."

The rig count has been falling steadily for six months, but the decline has been slowing in recent weeks and finally flipped this week, Baker Hughes said Friday. The number of U.S. rigs drilling for oil and gas has tumbled from a peak of more than 1,900 two years ago to 408 now, and oil companies have shed nearly 100,000 jobs in Texas and more across the country.

But higher oil prices are encouraging some producers to begin the long process of ramping activity back up. Among those adding rigs this week, oil companies deployed five to the Permian Basin in West Texas and producers in Alaska brought three online.

A survey released by Evercore ISI on Friday showed a third of oil drillers, both in the U.S. and elsewhere, plan to boost their budgets by 10 percent in the second half of the year if crude prices keep hovering around \$50 a barrel. Nearly three-quarters say they expect to pour more money into the oil patch in 2017.

"The period of significant decline is behind us," said Bill Herbert, a senior energy analyst at Piper Jaffray & Co., an investment research firm. From here on, he said, "it's more steps forward than backward."

Herbert said he believed the industry could put 500 drilling rigs back to work by the end of 2018, adding 20 to 100 jobs with each one, though after a financial squeeze amid falling oil prices, companies won't be able to afford a big surge in drilling for a while.

Praveen Narra, analyst at investment bank Raymond James, said a rise in crude prices to about \$60 a barrel could boost the rig count by a third, to 625, by the end of the year.

Both Herbert and Narra acknowledged it will take months for U.S. drillers to pay down large debts run up in the last oil boom, which began in 2010 and ended in April 2015, when domestic production began to decline.

It also will be difficult to find workers after deep job cuts, analysts say.

Still, higher corporate spending bodes well for Houston's oil field services companies. Those investments in the oil fields are the lifeblood of service companies like Schlumberger and Halliburton that have had to cut tens of thousands of jobs after oil prices crashed and global oil producers in 2016 spent less than \$400 billion for the first time since 2009.

"We've had two years of capital expenditure drainage," and that lack of spending will keep the supply of labor and oil equipment constrained in 2017, Narra said.

U.S. crude settled at \$48.62 a barrel on Friday, up from a 13-year low of \$26 a barrel in February.

Through financial engineering, oil companies have locked in the higher prices for future oil sales, a process called hedging. They secured higher prices for 1.2 million barrels of production in the first quarter of 2016, up 15 percent from the prior three months, according to data compiled by Bloomberg.

"There's no question there's a trend there," said Jamie Webster, a fellow at the Columbia Center on Global Energy Policy. "The big question is going to be how the market looks at it."

Some market observers worry that U.S. crude production could rebound too swiftly, backfiring on them by erasing recent gains in oil prices, which have risen as shale oil output has fallen and countries including Nigeria and Canada have suffered production outages.

Webster said he thinks the growth rate will be manageable.

"As long as the oil price doesn't get too terribly high," he said, "they'll probably get through this."



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