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Unidentified oil rig workers from Patterson Drilling Contractors put drill pipe into the ground on a rig near Dew. Exploration is picking up due to higher prices, but some small firms are being left out.

Crude awakening

Smaller energy firms left out of rush to drill amid higher prices.

BY GREG JEFFERSON
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After more than a year of depressed levels, natural gas and crude oil prices are climbing, and some operators are apparently reading that as a call back to the fields.

The Texas Railroad Commission, which regulates the state's oil and gas industry, issued 1,004 drilling permits in April, up from 812 in March and 844 in February. But some energy companies — particularly small ones — can't take advantage of the higher prices.

"There's a pretty strong relationship between price and (drilling)," said Allen Mesch, president of PetroStrategies Inc., an oil and gas consulting and research firm in Dallas. "The question is how much money they have in the bank."

Lack of capital is a major reason a stampede of small, independent companies heading for the fields isn't likely soon. Many are still nursing wounds from their recent battering.

Natural gas prices plunged from around $10 per thousand cubic feet in late 2000 — a price stoked partly by a harsh winter and low inventories — to as low as $2 early last February.

"In January and February, the prices were pretty dismal," said Barney Dishron, who runs a small San Antonio company, AWP Operating Co., with his father, Joe.

However, the direction lately has been upward. Natural gas futures increased to $3.855 per thousand cubic feet on the New York Mercantile Exchange on Tuesday.

But last year's fall hobbled several small operators.

The astronomical prices "caused numerous companies to rush out and drill new wells," said Ray Welder, the 32-year-old owner of Welder Exploration and Production Inc. in San Antonio. "Many companies, instead of using that cash flow to clean up their balance sheets, used it to drill more wells.

"Now we've seen this strengthening (of prices), and yet we've seen a reluctance in the industry to go out and drill more wells."

And some exploration and production firms are simply uneasy about renting drilling rigs without knowing that prices are firm.

"I guess there's a lot of wait-and-see right now," Dishron said.

They are also waiting for the higher prices to catch up with their bank accounts. Production

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Michael Crafts (left), Jason Ford and Randall Britchett change a length of drilling pipe on the Greywolf No. 39 natural gas rig near Palestine. After more than a year of depressed levels, natural gas and crude oil prices are climbing.

Many small oil firms staying on sidelines

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companies usually get paid one or two months after a sale. As a result, they had been banking checks reflecting the weak prices of February until just recently.

"They'll start getting checks in the next 30 to 60 days at (the higher) prices, and that'll get them all fired up," said Stacy Locke, president of Pioneer Drilling Co., a locally based contract land-drilling firm that operates in South and East Texas.

But independents' worries don't end there.

Welder, who operates about 25 wells in South Texas, wants to drill 16 wells this year. But he's concerned the price of drilling services and the scarcity of equipment will jump as commodity prices rise and large operators step up their drilling.

When natural gas prices went through the roof, small companies like his had trouble lining up land rigs from contractors. The big players tied up the multimillion-dollar equipment in long-term contracts and pushed up the day rates on the others.

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>
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"I couldn't get a rig," Welder said. "We wanted to drill more, but there was no equipment and no people."

He estimates that rates on a rig a year ago were up to about $15,000 per day.

Now the price is between $8,000 and $9,000 per day, and plenty of equipment is available, Welder said. But drilling by the larger, public companies is picking up.

"We're starting to see that on the field level," said analyst Brad Beago of Credit Lyonnais Securities' Houston office. "They'll ramp up ... They should be clicking along by the fourth quarter."

Apache Corp., EOG Resources, Anadarko Petroleum Corp. and Noble Energy are some of the companies he follows.

Many of the bigger companies forecast natural gas at $2.50 and crude oil at $20 per barrel for the first half of 2002, Beago said, and they slashed their capital expenditure plans accordingly. But, with the recent increases, they have boosted their estimates and are looking to speed up drilling plans.

Still, Locke doesn't expect an equipment crunch this year.

"There will be plenty of rigs available over the next six months," Locke said.

But he also predicts that, beginning in the first half of 2003, more of the large players will want to secure rigs under long-term contracts.

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