# THE LAND RIG NEWSLETTER

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*Company Profile*

# Scandrill High-Grading Staff as Part of Cost Control Survival Strategy in Downturn

Somewhat emulating its customers' approach to cherry-picking well locations with the best potential returns, Scandrill has focused on high-grading staff amid cost-cutting survival strategies.

Paul Mosvold, president and chief operating officer of Scandrill, detailed his company's business strategies in a far-ranging interview with *Land Rig Newsletter* this month.

Discussions centered on what Scandrill has done to weather the downturn in the industry, both from a financial and rig fleet perspective and his outlook for the oil and gas drilling industry. Mosvold attributes Scandrill's success to the tagline the company has adopted: "the Drilling Contractor of Choice."

He said the company has been able to push through the downturn by remaining virtually debt free, instituting extensive cost-cutting measures, employing only top performing staff, maintaining rigs properly—including upgrading rigs when they are stacked, and using only rig hands hired and trained at the firm's Tyler, Texas, operational headquarters.

## Cutting costs a primary focus

Cutting costs has become very important to the whole industry, Scandrill included. But there is one cost that Mosvold points to that has increased exponentially: "The cost of stupid has definitely gone up," he said. "Everyone makes mistakes, and we make them, too. It is our goal to make sure we are making less of them than everyone else. We are doing everything we can to remain the 'Drilling Contractor of Choice' for all our customers."

Mosvold knows a lot about paying the price and looking carefully at all costs since Scandrill was forced, like most other drilling contractors, to take a hard look at how to preserve revenue when cash flow began to dry up. Pay cuts, reduction of matching funds for 401(k)s, reduction of office space as well as people, and overall reductions in daily rig operating costs were strategies Scandrill undertook to break even.

Like so many others, Mosvold said, "We don't have anywhere else to cut. We are down to the bone."

"The cost of stupid has definitely gone up."
*Paul Mosvold, Scandrill*

## High-grading staff

When having to take a cold, hard look at laying off staff, Mosvold said Scandrill employed a comprehensive grading system that rates all employees from level A (the highest) to level D (the lowest). He said when it was time to reduce headcount, managers and supervisors were instructed to make the cuts strictly according to the grading scale. "When it is time to reduce staff, sometimes it is very tempting to keep someone who is not as efficient as

## This Month

# US Crude Oil & LNG Exports Grow, but No Impact Seen for Commodity Price Improvement Yet

Increases in seaborne exports of both US crude oil and liquefied natural gas (LNG) that began earlier this year have grown, and observers believe the trend will not end any time soon.

The direct impact on commodity prices in the US—and in turn on improved prospects for drilling—however, is negligible, and no change is expected anytime soon despite the growth trend.

The volume and number of countries receiving US crude by tanker shipping first spiked in March, about 3 months after restrictions on crude oil exports were lifted. Since then, daily exports have averaged about 9% higher than in 2015, and May totals were the highest since the US government began keeping records in 1920.

The number of countries receiving US crude has also grown significantly with the end of restrictions, and 16 nations are now taking an average total volume of 501,000 b/d.

LNG exports have likewise risen every month since February, with key markets in Asia made even more accessible—and economical—with the opening of the expanded Panama Canal in late June. This uptick is also expected to continue as additional US liquefaction trains and LNG terminals enter into service.

## Crude oil

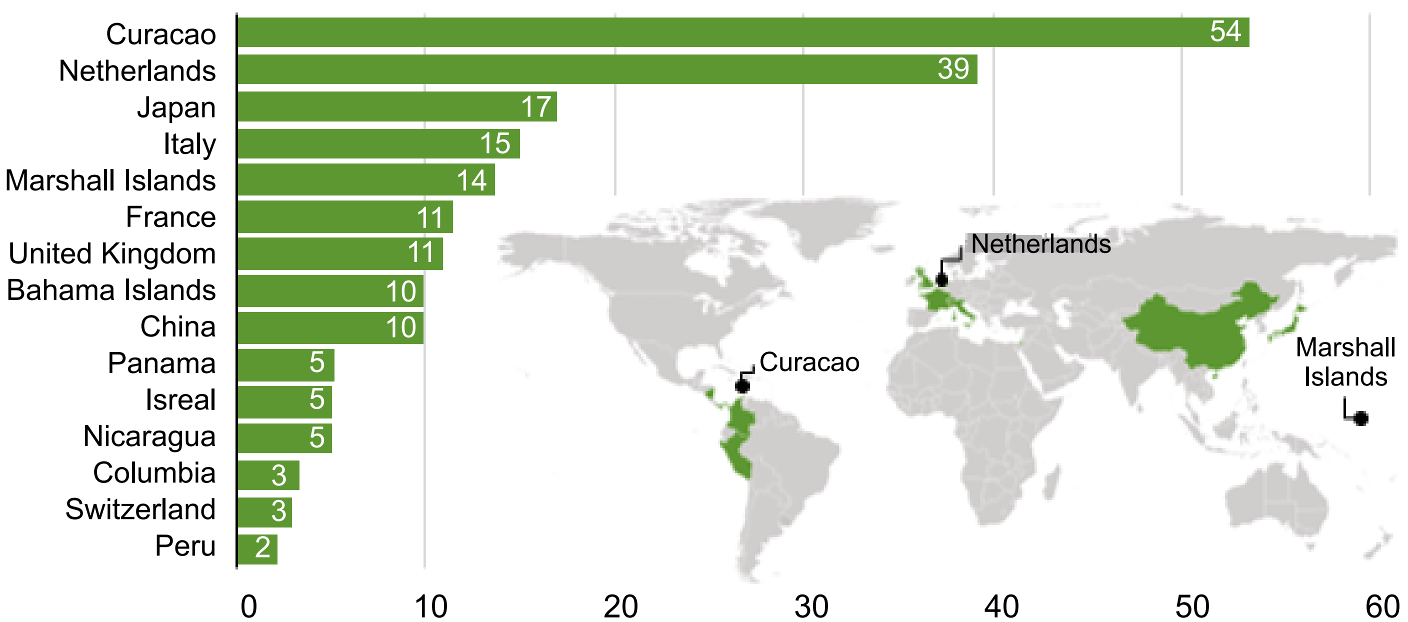
"There was a big ramp (in crude oil exports) in March, nearly doubling what we saw in February," said Matt Smith, director of commodity research at Clipperdata. "We're now exporting about 400,000-500,000 b/d, about the same as 6 months ago."

Data from the US Energy Information Administration (EIA) shows exports went from 374,000 b/d in February to 508,000 b/d in March, 591,000 b/d in April, and the record 662,000 b/d in May, before falling to 383,000 b/d in June (the last month for which full numbers are available).

While the vast majority of US crude exports previously went to Canada—which had been excluded from the recently lifted restrictions— exports to other countries are increasing consistently this year and in both March and May collectively passed those going to Canada. According to the EIA, countries other than Canada receiving more than 10,000 b/d during the first 5 months of 2016 were Curacao, Netherlands, Japan, Italy, Marshall Islands, France, UK, Bahamas, and China.

Oil terminals that have benefitted most from this uptick are Corpus Christi and the Port of Beaumont, both in Texas, Smith said. Regional oil plays realizing the largest gains, said Ed Morse, global head of commodity

**U.S. crude oil exports to countries other and Canada (average, Jan-May 2016)**
thousand barrels per day




**Source: EIA**

research at Citigroup, are "mostly those with light crude: Texas, North Dakota, and places in between."

Observers note that increased exports have had no impact on US crude prices, largely because volumes pale in comparison to imports. And, they explain, export levels are being driven entirely by the spread between WTI and Brent.

"When WTI generates a greater discount, US crude is cheaper and exports rise," Smith said. "There will always be a certain demand for US crude, but the level will still be primarily dictated by the spread."

Accordingly, Morse believes today's higher export volume should be sustainable—particularly to Europe and China—as long as it remains profitable.

"It's not increasing because it is now permitted," he said, "but when it's profitable, exporters can now take advantage. It should continue to increase in the short term. The real test will be when drilling resumes, probably in 2017 or 2018."

## LNG exports

"Since February, we've been seeing (LNG seaborne export) volumes increase every single month," said Clipperdata's Smith. The boom started when Cheniere Energy's Sabine Pass liquefaction plant in Louisiana sent out its first cargo late that month. It was driven further with the summer opening of the expanded Panama Canal, which dramatically cut travel time to Japan, South Korea, China, and Taiwan—countries that collectively account for almost two-thirds of global LNG imports—as well as large South American markets. An additional boost came in August, when a second Sabine Pass train entered service.

EIA now projects LNG gross exports will hit an average of 0.5 Bcfd this year and average 1.5 Bcfd in 2017. But some see the volume expanding long beyond that date.

"The two (Sabine Pass) trains will be shut down through most of September for annual regular maintenance, but otherwise, exported LNG volumes are gradually ramping up and will continue to do so through 2019, as a total of at least 14 liquefaction trains enter service in the US," said Dr. Tim Boersma, program director, global natural gas markets, at Columbia University's Center on Global Energy Policy.

"In the coming years, additional liquefaction terminals will start operating," he added, with the first, Cove Point (Maryland), scheduled to open in late 2017.

According to EIA, three more are under construction: another Cheniere project, Corpus Christi LNG, is scheduled to begin service in 2018; Sempra Energy's Cameron LNG terminal in Hackberry, Louisiana, is set to open in 2018; and Freeport LNG in Freeport, Texas, is slated to have a two-stage opening in 2019-2020.

## Which plays benefit?

Shale plays benefiting most from exporting LNG are now primarily those with proximity to terminals, but Boersma noted that Cheniere is able to draw from multiple sources and can therefore access the most competitive gas, depending on current domestic pricing. To date, interest has been strongest in "the Marcellus and Utica shale plays, where natural gas is priced at a significant discount from Henry Hub," he said.

Exports themselves, which despite the boost still account for only a tiny portion of total volume, have a negligible impact on US natural gas prices, observers say. Instead, they explain, pricing is determined by various seasonal and weather-related factors, storage levels, and the cost of competing fuels. "Gas prices have risen to $2.80 from $2, but it's because of record power use, not exporting," Smith said.

Boersma said multiple studies have attempted to determine whether larger export volumes could affect US prices, but even at levels 40 times higher than those today no substantial impact was detected.

"Other factors will most likely have a much stronger influence on gas prices than LNG exports, regardless of what happens to the utilization of US LNG export capacities," he said.

Smith added, "Prices depend somewhat on exports to Mexico as well, and that is really ramping up. But remember, as prices rise there's more of an incentive to produce, which keeps prices down."

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