

Busted

Oil industry cautiously optimistic emerging from downturn

- By JONATHAN GALLARDO and GREG JOHNSON News Record Writers
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Marty Sedgwick, a rig manager for Cyclone Drilling, stands next to the shale shaker used to remove large solids from the drilling fluid Thursday afternoon on Cyclone's oil rig No. 39, working in Converse County near Douglas. News Record Photo/Kelly Wenzel

Dan Lindsey's been in the oil industry since 1976. A consultant and drilling supervisor for Cyclone Drilling, he's seen a lot of industry ups and downs in 42 years, but said the most recent oil bust was the worst.

“This last downturn was the first time I’ve been without a job for more than a couple months,” he said.

Those were a tough few years, he said, and while he stuck with it and rode out the bust, many others didn’t.

“We lost a lot of good people (in 2015 and 2016),” Lindsey said. “Lots of people left the industry and never came back.”

But now, with rig counts going up and oil prices remaining stable above \$60 a barrel, Lindsey said he’s feeling a lot better now.

“We’ve got a pretty good future,” Lindsey said about Campbell County oil. “We’re on the upswing right now.”

Follow the numbers

While far from the \$100-plus oil was commanding when the U.S. market was booming, keeping above the \$60 a barrel threshold gives companies incentive to produce again since oil crashed to below \$30 in January 2016.

Rig counts also have started to rebound, from zero in Wyoming to 29 as of Friday, including six working rigs in Campbell County and nine in Converse County.

Those numbers can be interpreted in many ways, but for Wyoming residents the most important is jobs, said David Bullard, senior economist for the state Department of Workforce Services.

“The rig count is right around 30 now, but I’ve seen it up over 100 for part of 2006 (when oil was booming),” he said. “It’s hard to say what a good level is. To be around 30, we’re still down compared to ... then, but we’re up quite a bit from the single-digits in early 2016.”

For Wyoming's workforce, those higher rig counts mean more jobs, Bullard said, including Campbell County, which saw a loss of 1,271 oil and gas support service jobs from the third quarter of 2014 (2,422 jobs) through the third quarter of 2016 (1,151 jobs).

Over the next year through the third quarter of 2017, the latest numbers the state has compiled, oil and gas service employment has picked up by nearly 30 percent, from 1,151 to 1,495.

Those job losses did more than put people out of work, said Bruce Hinchey, president of the Petroleum Association of Wyoming. It led to many of the state's skilled oil field workforce leaving to find work elsewhere.

Now that oil activity is picking up again, many companies are having trouble filling some jobs that have become available again, he said.

"We definitely had a bust and a lot of people who were laid off moved to other states to get work," he said, adding that the rebound over the last nine months has been welcome. "It's not booming, but it's certainly picked up a lot."

In Campbell County, Vermona Petersen manages the Gillette office of the Wyoming Department of Workforce Services. She confirmed many support services are having trouble finding enough good workers.

"When we had our local career fair March 22, we had so many employers we filled the facility and had to put some employers on a waiting list," she said. "Employers are hiring and there's some really good jobs out there."

Now that oil is picking up again, she said employment becomes "a big challenge. It's one of the reasons we had the career fair ... and it's a community-wide problem. I see job growth in every sector of our community. Is it booming job growth? No, but we have growth in multiple sectors."

Bust busted, but not booming

Paul Hladky, vice president of Cyclone Drilling, said riding out the bust was tough, but that although “we’re definitely better than we were a year ago ... we’re definitely not fully recovered.”

Since joining the company in 1998, Hladky has been through three downturns, and this most recent one is by far the longest and deepest.

His company has rigs in Wyoming, Colorado, North Dakota and New Mexico. It peaked at 28 active rigs in 2014. Now, 13 are running, including six in Wyoming.

He expects to see a slight uptick in the second half of 2018, but nothing too crazy. For now, things are remaining steady, and that’s not a bad thing.

“Where we’re at today, there’s some stability, which is comforting,” he said. “This could be the new norm.”

In the fourth quarter of 2017, Wyoming saw a 24.5 percent increase in taxable sales over the fourth quarter of 2016, and it was largely due to increased activity in the oil field, said Wenlin Liu, principal economist with the state’s Economic Analysis Division.

Converse County saw a nearly 200 percent increase in that year, while Campbell County saw a 26 percent jump.

Liu said oil prices are the highest they’ve been since before the downturn.

“Five years ago, people would have looked at \$65 and thought, ‘That’s terrible,’” said Rob Godby, director of the University of Wyoming Department of Economics and Finance.

“Times have changed, and for the better.”

Hladky said he doesn’t see any reason for a large change in the price of oil.

“I think we’re going to see this \$55-\$65 oil for some time, unless there’s a major disruption in supply,” he said.

Oil production is increasing “a lot faster than employment recovery,” Liu said, which is a sign of a more efficient industry.

Thanks to advances in technology such as horizontal drilling, companies can produce the same amount of oil at a lower cost and with fewer employees, Liu said.

Godby said the increased efficiency is a direct effect of the downturn.

When oil prices were at \$30, companies were faced with a decision: become more efficient or go out of business.

“If we want to continue to work, we have to be cost-effective,” Hladky said.

A well that used to take 35 days to drill can now be drilled in nine to 12 days, Hladky said. And an entire rig can be moved to a new location within three days.

The oil bust created “a more intense focus on running as efficiently as possible,” Godby said, and it’s made the U.S. oil industry very resilient.

“We learned to live with (the low prices) and continued to produce,” he said. “There’s a lesson to be learned there. Given opportunity and time, people come up with solutions to problems.”

Fiscal responsibility

In 2013, Earth Work Solutions, a Campbell County construction company, was so busy in the oil fields that it had to subcontract out-of-county truck drivers to meet the demands of its clients, said owner Tyler Miller. Now is the busiest he’s been since that time, and he only expects to get busier.

Business started picking up in the beginning of this year, he said.

Earth Work builds roads and pads for oil rigs, as well as ponds to dispose of excess water. Miller has been getting many calls from existing clients as well as new ones, and he expects his company's workload to increase as the weather warms up.

"I think it's going to be a very busy summer, provided that oil prices stay up," he said.

To keep up, Miller said he's "being very careful," renting equipment instead of investing in new machinery.

"We don't want to get saddled with debt if there is a sudden downturn or something," he said. "It's being responsible, being optimistic but cautious at the same time."

Cyclone Drilling finished building a new rig in January, and has two more new ones slated for the rest of the year. Adding to the company's rig fleet was a tough decision, Hladky said, because it's difficult to find a balance between being conservative and remaining competitive.

"It doesn't sound like it would be very intelligent to build rigs right now," he said. "But we're striving for market share. It's a risk that's worth it if we want to stay relevant in the market."

It also is a risk that helped keep another local company afloat.

One bust to another

Dust Control Inc. was in a unique situation a few years ago. The fabrication company, which had been in Gillette for more than three decades, had worked almost exclusively in the coal industry.

Then the coal bust happened and "we were almost broke," said Del Shelstad, the company's vice president.

That's when Dust Control got into another struggling industry.

"We were lucky enough to get some business from Cyclone Drilling to build oil rigs," he said. "The Hladkys actually were trying to keep companies like us from starving. Even though they didn't have a job for oil rigs to go on, they were still building oil rigs."

Things started picking up at about Christmas last year, and he said he's looking forward to working in his first oil uptick and "trying to manage that appropriately."

Although Shelstad is willing to grow his business according to his customers' needs, he doesn't want to stretch out too thin.

Oil production up, producing jobs down

Despite the 30 percent increase in oil and gas service jobs in Campbell County through three quarters of 2016 to 2017, actual drilling jobs is another story.

During that time, jobs working directly for oil producers fell 13 percent, from 325 to 284, according to the Department of Workforce Services.

That's an example of some of these efficiencies that companies are forced to come up with to weather a bust, Bullard said.

The unemployment rate across the state has decreased, in part because the labor force has shrunk.

"There's definitely been a shortage of workers right now," Miller said. "Everybody I know is looking for good, qualified workers."

"We've been lucky enough to find a few (welders)," Shelstad added. "It's a good indicator (for the energy industry) when those guys are hard to find."

Hladky said Cyclone is hiring workers in the support fields, like electricians, mechanics and welders. The hardest position to find, he said, are instrumentation and control technicians because he's competing with not just other drilling companies for those workers, but other industries as well.

What's ahead

Hladky said he expects things to keep steady this year, with a slight uptick in the third and fourth quarters.

"Right now, the demands are steady. There hasn't been any major demand disruption," he said. "If anything, there's that uptick in demand globally for energy.

"I don't know if I'd characterize Wyoming as a boom yet, but it's certainly expanding," Godby said. "We're certainly not on par with the major players in the country in terms of production increase."

How much growth happens in Wyoming "depends on the potential of the price increase and the willingness of operators to choose the Powder River Basin to develop," he said.

Although the Powder River Basin "is a lucrative play," he said it depends on "who's playing and what other choices they have."

Godby said that if another downturn happens, companies will be "less likely to continue to invest in a place like Wyoming over other places that are more proven" like the Permian Basin in west Texas.

For now and the foreseeable future, people are going to need oil.

"Demand for oil is going to be there for a long, long time — unless everyone stopped driving," Godby said.

Hladky said although he feels good about the industry today, he's "comfortably uncomfortable."

"Things change rapidly in our industry, so we're never too comfortable," he said. "And we also have to perform because the market is highly competitive."

Shelstad said he's excited for the rebound to continue.

"Absolutely, I'm ready," he said. "I think our entire community's ready."