



THE LAND RIG NEWSLETTER

SEPTEMBER 2016

VOLUME 38, NUMBER 9

Company Profile

Scandrig 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, Scandrig has focused on high-grading staff amid cost-cutting survival strategies.

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

Discussions centered on what Scandrig 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 Scandrig'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, Scandrig 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 Scandrig 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 Scandrig undertook to break even.

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

High-grading staff

When having to take a cold, hard look at laying off staff, Mosvold said Scandrig 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



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This Month

<i>Company Profile</i>	
Scandrig High-Grading Staff as Part of Cost Control Survival Strategy	1-4
Scandrig Upgrades Fleet during Downturn	4
Market Dynamics	6-7
<i>SPECIAL REPORT: IADC ART Conference Wrap-Up</i>	
Drillers Counseled to Balance Stiff Cost Controls with Strong Focus on Safety	8-9
Automation to Play Key Role in Rigs of the Future	9-11
Operators See Human Factor, Collaboration, Integrity as Keys to Implementing Advanced Technology	11-12
Innovative Tech Panelists Spotlight Rig Automation	13
US Crude Oil & LNG Exports Grow, but No Impact Seen for Commodity Prices Yet.	14-15

Executive Profile: Paul M. Mosvold

Paul M. Mosvold lived in Norway until he was 16, when he moved to Houston with his family. He moved to Minnesota where he attended boarding school for 2 years before returning to Texas, where he spent 1 year as roustabout and roughneck on a Scandrill barge rig prior to attending Houston Baptist University. While in college, he founded and operated Fitness Warehouse Inc., a retail and commercial gym equipment store in Houston, for 7 years. Prior to joining Scandrill in 1995, he spent 2 years as operations manager for a small independent shipping company, traveling extensively in the Middle East, India, and South America. He started his career with Scandrill as marketing manager. Later, he became vice-president of health, safety, and environment and stayed in that position until he became president and chief operating officer in January 2014.

someone else due to reasons other than performance," Mosvold said. "When it came time to make these decisions, we let the performance ratings speak for themselves. First, we got rid of level D, then level C, and then we went to level B. When we were forced to lay them off, then we could go to potential customers and tell them truthfully and honestly that they would have our 'A-Team' working for them."

Rig upgrades made fleet more competitive

Mosvold said Scandrill was able to upgrade rigs in the midst of the downturn due to proper timing, along with a determination to not take on any significant debt. Scandrill had set aside reserve funds to upgrade several rigs before the downturn took place in anticipation of an upcoming API recertification process. The company was not only able to upgrade its rigs but also did not have to borrow any money to do so. Six rigs were upgraded to include 7,500 psi fluid end mud pumps and walking capability.

"Every time a rig went down, we upgraded it in our Tyler or Permian Basin yards," he said. Now Scandrill has the rigs necessary to get jobs they can in the midst of a very competitive playing field.

"There are a lot of rigs out there warm stacked, and there are a lot of folks who believe there won't be any real recovery until those rigs are put back to work," Mosvold said. "But a lot of those rigs that are stacked may never be used again because they are just not up to the demand of the current market out there. A lot of rigs just cannot meet setback capacity. They just don't have the capacity to compete, and they can't be upgraded to the point where they are once again in demand. When we decided to spend the funds for these refurbishments, we had a lot of



Scandrill Inc.'s first 1,500-hp AC rig, the Scan Vision, is currently working for Anadarko in Loving County, Texas, in the Permian Basin. This Veristic Manufacturing E-Series walking rig's equipment includes OWI 1,600 hp AC drawworks, 3 Caterpillar DGB-3512-C diesel engines with dual-fuel capabilities, a 500 ton Varco TDS-11SA AC top drive, and 2 F-1600 AC drive mud pumps with 7,500 psi fluid ends.

conversations about it. But we realized if we wanted to stay relevant, we had to be aggressive," he said.

Company focus keeps Scandrill working

Scandrill's strategies and integrity in the industry are apparently working because the company has been able to rehire 50% of its rig staff back over the last several months. Scandrill has also been able to reach a >90% rig utilization rate (12 of 13 marketable rigs working) after being down to only 6 rigs working a year ago.

"There are some things that we realize are just beyond our control," Mosvold said. "For example, if an operator is going to cut the amount of rigs running for them from 10 to 5 due to financial considerations, we can't do anything about that. But what we can do something about is making sure that our rigs are part of the 5 working."

Mosvold attributes much of the company's high rig utilization to his staff.

"Having this type of rig utilization is not just iron-oriented," he said. "We have had tremendous success with our people. If all things are equal out there and the iron is equivalent, then operators will definitely look at the people and consistently high operational performance.

"If they are going to reduce from 10 rigs to 5, and the 5 are our rigs, then we have to give credit to our people. We have very few people out of 400 workers who have college degrees. We find young people with very little experience who test out well on our exams, which indicate what kind of skill potential they have. Doing it that way, we come up with a better group of people. We have a good reputation out there, and it is because our people are dedicated to our core values. Everyone with our company now is running wide open."

Better people along with superior operational execution, Mosvold said, are the keys to keeping Scandrill's high utilization rate with a fleet of mostly SCR rigs in an environment when many operators want AC-powered rigs.

Outlook for industry

Mosvold said Scandrill's low point during the downturn occurred a year ago when they had only 6 rigs running, although he acknowledged industry rig rates did not "bottom" until a couple of months ago. Now its fleet utilization is much higher, and he expects to see the rig count hit close to 800 by the end of 2017. But, he said, the rig of the future is going to be asked to perform a lot more efficiently.

We recently drilled an 8-well pad location," Mosvold said. "That calls for tremendous efficiency. How many rigs that are stacked would be able to do that? It isn't so much what the rig count is anymore. It has come down to what rigs are capable of doing the job called for and how those jobs have changed. What rigs are capable? That is the real question."

Scandrill's Recent Drilling History*

Operator	# of Wells	Operator	# of Wells
Anadarko	164	SM Energy	31
Barrow Shaver Resources	5	Sojitz	3
Block T	1	Stroud	2
Bold Operating	20	Tanos	27
Brammer	11	Trivium	2
Burk Royalty	6	Valence	81
Cimarex	31	Verado Energy	11
COG	35	Wargner Brown	1
CW Resources	1	X-Terra	1
Dallas Prod	5	XTO	828
Decker Oper.	4	Sulphur River	4
Devon Energy	171	Endeavor NG	1
Diamondback	3	Total	2,231
Eagle Rock	1		
Ergen	20	Rigs	# of Wells
Evolution	3	1409 - Rig	40
Fidelity Exp	9	1411 - Victory	100
Firewheel	9	1412 - Discoverer	90
Fort Apache	1	1414 - Energy	153
Goldston Oil	43	1415 - Pride	129
Indigo Minerals	21	1416 - Exploerer	138
Ironwood	2	1417 - Scout	117
Jack Phillips	6	1418 - Producer	125
Jagged Peak	7	1419 - Driller	62
Kraker and Martin	1	1420 - Traveler	81
Lacy Operations	2	1421 - Spirit	157
Midstates Pet.	21	1422 - Cross	171
New Century	1	1423 - Gold	133
Noble	6	1424 - Freedom	103
Parten	1	1425 - Texas	103
Pcore	2	1426 - Patriot	76
R Lacy	2	1427 - Liberty	116
Redman	2	1428 - Star	127
Rising Star	2	1429 - Glory	86
Rockefeller Hug	3	1430 - Eagle	60
Samson	568	1432 - Endeavor	48
Sequitur	49	1433 - Vision	21
		Total	2,236

*Represents data back to 2002, when Scandrill started electronic recordkeeping

He said he believes the industry has hit the bottom now and is starting to recover: "I wouldn't say there is anything super significant going on yet. But I have noticed in the last couple of months that operators are beginning to add a rig here and there rather than reduce them. We stopped seeing downward pressure on rig rates 2 months ago. I talked to one operator, and he said he knew the industry had hit the bottom when all of the bids he was getting for a job came in either the same or just a few hundred dollars difference. I don't see rig rates going up yet, but hopefully pretty soon they will be able to creep up to livable levels."

Scandrill Upgrades Fleet during Downturn

One of Scandrill Inc.'s core values states that the company strives to surpass its goals through performance improvement.

With that core value firmly in place during the ongoing downturn, Scandrill has embarked on a program to enhance performance or efficiency by upgrading or inspecting certain rig equipment and by selecting a new vendor for fluid analysis. Work on rigs was undertaken during the downturn, when the rigs were stacked, and all work has been completed.

API Cat IV inspections

The company had four API Cat IV inspections on rigs Scandrill Star, Scandrill Producer, Scandrill Patriot, and the Scandrill Liberty. These inspections involved having a third-party certified inspection service examine the condition of the substructure, mast, and crown section for corrosion issues, damaged beams, support braces, etc.

Based on the inspection report, the company could repair or replace items as necessary to bring the structure back to a like-new condition. The rig was reinspected and then sand blasted, primed, and painted. These inspections are required every 10 years, and Scandrill remarked that the lack of required repair work was a reflection of how well the rig was maintained during that time period.

Mud boat and mud pumps upgrades

Scandrill completed several mud boat upgrades. A new term associated with these upgrades is "Super Flow." These Super Flow upgrades have been installed on the Scandrill Texas, Scandrill Cross, Scandrill Vision, Scandrill Endeavor, and the Scandrill Gold.

The old-style mud boat was functional but inefficient and labor-intensive. The new Super Flow is made of short sections that are added as the rig walks. Instead of a large open trough, it has a closed pipe that forces the cuttings through to the shaker. Feedback from rig crews and customers about the mud boat upgrades has been very positive.

Mud pumps also were upgraded to 7,500 psi on the Scandrill Endeavor, Scandrill Vision, Scandrill Gold, Scandrill Texas, Scandrill Star and the Scandrill Producer. These mud pump upgrades are likely to be a requirement by many customers in the future, as well depth increases.

Top drive buys, new fluid analysis vendor

Scandrill purchased 3 used NOV TDS-11 top drives, which are installed as deemed necessary by customer demand.

In addition, the company made the decision to use a new fluid analysis company, Polaris Laboratories, that has a user friendly website that allows sample information to be entered at the rig and the results tracked online.

Rig fleet make-up

Scandrill's current fleet is made up of one 1,500 hp AC rig, the Scan Vision, and the rest are 1,500 hp SCR rigs.

During the refurbishment program, Mosvold said Scandrill's rigs were upgraded to the point that they are now prepared to make an easy switch over to AC rigs when the market will bear it. "They are ready to become AC rigs whenever we can get the day rate we need for it to be profitable," he said. "Day rates still have to move up for that to occur."

If demand for rigs were to show a sustained upswing, Mosvold said the company might consider building a new 2,000 hp AC rig. "But we will not build a rig on speculation. We would have to have a contract behind it," he said.

Scandrill is retiring 2 rigs—one 1,000 hp mechanical, the Scan Energy, and a 1,000 hp SCR rig, the Scan Glory.

Scandrill has been working in the ArkLaTex region and the Permian Basin and plans to remain in those two regions for the foreseeable future, Mosvold said.

"There is a lot of innovative drilling going on in the Permian, he said, including walking rigs, larger pumps, and the use of dual fuel rigs. Just about all of our rigs have dual fuel capacity," he said. "We have been doing dual fuel drilling for years in East Texas. We don't market that feature, but it is available on all of our rigs." 🌐



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