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News : Well drilling, completion costs to rise in 2024: Dallas Fed survey

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- 60% of E&P, services execs say D&C costs will rise
- 85% of them see unchanged H1 2024 US oil rig count
- Energy transition won't affect oil prices much: respondents

A majority of oil and natural gas operators expect well drilling and completion costs to rise in 2024 versus 2023, even as inflation has moderated from peak levels seen a year ago and some service costs have dropped, the most recent Dallas Federal Reserve Bank energy survey found Sept. 27.

Some 60% of E&P company executives believe well service costs will be higher, while 18% say costs should be lower and 21% don't expect any changes, the quarterly Fed survey found from its 147 energy company executive respondents when polled in mid-September. Companies included 98 upstream operators and 49 oilfield services providers.

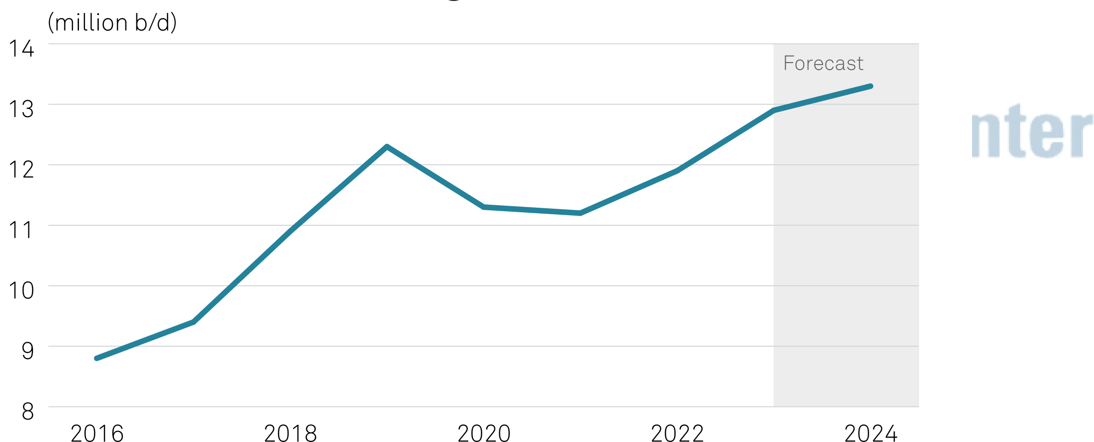
“However, that opinion [of higher D&C costs in 2024] was much more prevalent among smaller E&P companies, where two-thirds of respondents expect higher costs," Michael Plante, Dallas Fed senior research economist and advisor, said. "At larger E&P firms, only 40% expect higher costs.”

Small E&P companies were classified as those producing 10,000 b/d of oil or less, while larger E&P firms are those producing more than 10,000 b/d.

And overwhelmingly, 84% of the survey's respondents said they expect the US oil rig count in six months to be fairly near what it is today. That would be around 577 oil rigs, according to S&P Global Commodity Insights rig data for the week ended Sept. 13, or around 507 which is where the Baker Hughes US oil rig count stood for the week ended Sept. 22.

Interestingly, 14% said the US oil rig count would be "much higher" than currently, with just 1% saying it would be "much lower."

US oil production seen rising in 2023-2024



Source: S&P Global Commodity Insights

Analysts, drillers see increase in total rig count

However, overall US total rig counts are expected to rise as natural gas-directed rigs, which fell as natural gas prices plummeted during the first half of 2023, return to unconventional domestic fields, analysts and drillers have said in recent weeks. Some industry experts have stated the Baker Hughes US land rig count, which was 611 for the week ended Sept. 22, should reach 700 and even beyond in 2024 or by end-2024.

And "while the rig count has declined sizably this year -- I think it's around let's say 20% -- once you break it down you find there's a decline of natural gas rig count, or in basins like the Eagle Ford Shale," Kunal Patel, senior business economist at the Dallas Fed, said in a Sept. 27 press webinar to explain the survey. "In the Permian Basin you haven't seen as much of a decline."

The Eagle Ford Shale is a maturing basin many where large producers once operated but have exited in recent years.

Permian Basin rigs bounced around in the 350s and 360s most of first-half 2023 but began to fall in June. according to the S&P Global rig count. For the week ended Sept. 13, Permian rigs numbered 322.

In addition, just 9% of respondents said they expect the energy transition to decrease the price of oil, while nearly 60% of respondents to a major quarterly energy survey expect the energy transition to have no impact or "only slightly" increase the price of oil, the survey found. Another 33% said they expect a "significant" increase.

As for commodity prices, about half the respondents expect oil prices to be $85/b to $95/b at the end of 2023, while nearly three-quarters of executives expect Henry Hub natural gas prices in the $2.50/MMBtu to $3.49/MMBtu range in the same time frame.

Gas price 'not sustainable' for E&P: executive

One respondent, an upstream company executive, said in the Dallas Fed survey's special comments section that the current NYMEX gas price of around $2.65/MMBtu "is not sustainable for exploration or development for small operators."

Respondents to the Dallas Fed survey are not identified to encourage more frank comments.

Another upstream executive said most of any increases in net oil revenue from higher oil WTI prices around $90/b has been "siphoned off" by inflation in capital and operating expenses and "increasingly expensive debt service" owing to increasing interest rates.

"Our bank has eliminated the position of our commercial bank officer [for] independent oil companies," the executive said. "Obviously, the bank doesn’t want any oil and gas clients anymore." Upon soliciting other banks as a potential customer, the executive explained his upstream company produces oil and gas, and added: "A third of potential [banks] refused to take my company on as a new client. Their explanation to me was uniformly, 'We only want clients in reputable industries'."

Rising interest rates are also negatively affecting available free cash flow to deploy for heavy equipment, an oil services executive said.

"Manufacturers continue to miss recent delivery deadlines for equipment ordered a year ago," the executive said. "We will scale back 2024 new equipment capital expenditures due to an inability to source major components from manufacturers until 2025 and contemplation of refinancing notes — at anticipated interest rates higher than current rates."

The same executive bemoaned lack of available and trained mechanics, thus prompting a "substantial" wage increase. "Medical insurance cost for 2024 is up approximately 10% year over year," the executive said. "Vehicle, property and casualty insurance rates for 2024 are also increasing more than 10%. Bottom line, inflation pressures are not abating and are far from transitory."

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