

Coal-bed methane drillers expect little summer activity

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Operators and drillers are used to seasonal restrictions that slow activity in the Powder River Basin coal-bed methane industry every spring.

The industry plans around that, and usually drills like mad in the summer to make up for it.

But there's not much hope for this summer's drilling season.

"We have regular stipulations you prepare for and work around them. But this downturn is new. It's frightening," said Rosemary Edwards, co-owner of Edwards Drilling in Douglas.

"We're stacked higher than a kite, and laborers are stacked just as high," Edwards added.

After chugging along at 3,000 wells per year for several years in a row, there was only one active rig last week in the Powder River Basin coal-bed methane industry.

Drilling typically slows to a crawl this time of year due to mud season and springtime raptor and sage grouse stipulations. But this time there's little expectation of a summer revival.

The average daily spot price for natural gas sold at the Opal Hub in western Wyoming was \$2.69 per thousand cubic feet for the week ending April 6, according to the Wyoming Pipeline Authority. That's down from \$8.85 per thousand cubic feet this time last year.

Factor in at least a \$1 discount per thousand cubic feet for Powder River Basin coal-bed methane due to transportation, and the industry is left with a price that doesn't even pay to keep wells flowing.

"Companies have been ordered to just shut things down," Edwards said.

Neil Sanburn, partner of Bronco Drilling LLP in Sheridan, said he has scoured the entire Powder River Basin industry looking for work, and there's none. His three rigs are stacked. For now, he has kept on three key workers who try to stay busy in the shop.

"We thought we were going to have a good year this year. It looked like we'd stay busy for the first three quarters. But it died," Sanburn said.

What scares Sanburn the most isn't the low price of natural gas today. Commodity prices bounce up and down all the time. And although industry analysts don't expect much of a price increase until the fall, there's more than just the commodity price at play here.

Corporate budgets have been slashed, and there's a general sense of conservatism that pervades the industry.

"It's the general economy. That's a lot of it. I think they're worried about the total economy," Sanburn said.

Bruce Hinchey, president of the Petroleum Association of Wyoming, said that sense is evident throughout the oil and gas industry.

"Budgets are cut. Now some will drill some obligation wells to hold leases. But other than that, there's not much drilling going on," Hinchey said.

In October 2006, Wyoming's rig count climbed to 112 -- the highest in more than 20 years. The average number of all active rigs in the state for the first nine months of 2006 was 101, according to the Wyoming Oil and Gas Conservation Commission.

There were only 37 conventional rigs active during the first week of April this year.

Not just Wyoming

After a record high of 98 rigs in November, there were only 45 rigs last week in North Dakota, said Ron Ness, president of the North Dakota Petroleum Council.

The capital-intensive Bakken oil play pushed North Dakota oil production back up to 215,000 barrels per day in November, but that quickly fell to 185,000 barrels per day by February.

"What we have seen thus far is industry retract into the areas that area most productive," Ness said.

"There are still a lot of important leaseholds that are being developed. But certainly capital is a big issue."

"We're glad we still have 45 rigs, but we want to go the other direction for a while," Ness added.

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