

EDITORIALS

From the Chairman

GOOD REASON FOR OPTIMISM

IT'S INCREASINGLY clear that the drilling industry in the US is reaching the bottom of its current cycle. Given that US economic experts have declared the recent recession over—if, in fact, one existed at all—an upturn in Gulf of Mexico drilling may take place sooner than anyone had anticipated.

With natural gas storage full and last winter unusually warm, many were concerned that gas prices and drilling alike would remain depressed for most of 2002. Instead, gas markets rebounded right about the time the recession was declared dead. A number of factors have contributed to today's higher gas prices—strengthening crude prices, Middle East tensions, possible curtailment of US nuclear power generation, gas storage projections and even the drought in the US Northeast.



C Stedman Garber Jr, Chairman

The US Nuclear Regulatory Commission has said it might launch inspections and even

shutdowns of some reactors after finding corrosion problems at an Ohio plant, the *Oil & Gas Journal* reported recently. As much as 71% of US nuclear power capacity could be impacted. **Simmons & Company International** suggests that this alone could increase natural-gas demand by 1-5 B scf/day in the short term.

Meanwhile, the drought in the Northeast could limit the volume of cooling water available to coal and nuclear plants during this summer's peak cooling season. The mild winter that softened energy demand also produced scant snow, resulting in today's water shortage. This phenomenon, Simmons estimates, could increase gas demand another 300-700 MM scf/day.

All this is occurring against a backdrop of declining US natural gas production. The decline curve in the Gulf of Mexico has long been a fundamental basis for optimism. On new smaller projects, production decline can approach 50% in the first year. **Raymond James & Associates** now projects that US gas production will be down by 2.9% for the first quarter, compared to the same time in 2001. By summer, the analysts say gas production could be down as much as 6%, compared to last year.

There seems to be a great debate whether gas prices in excess of \$3 are appropriate in view of today's significant gas storage level. The market appears to be saying that it is, and that the fundamentals support these prices.

With gas prices at these levels holding, it shouldn't be long

before we see a meaningful pickup in natural gas drilling, especially in the Gulf of Mexico.

Regardless of whether the upturn occurs in the second quarter, the second half or possibly beyond, the fundamentals of our business are sound. We must work to stabilize our businesses to the extent we can and adopt practices to preserve our industry's strength over the long term. ■

From the President

THE MUSSEL WATCHER

EVER HEAR THE phrase, "Happy as a Clam", meaning all is right in the world and there are no worries? In the wild, nestled in the ocean's sandy bottom, happy clams siphon water through their little systems, straining nutrients, and occasionally burp, or "sigh", contentedly.

The clam's cousin, the mussel, works pretty much the same way. I love mussels, especially in a buttery broth of white wine, garlic and a touch of herbs.

Recently a jack up rig working in a tidal zone of the North Sea was required to be mindful of the impact that drilling would have on the quality of seabed life where these delectable shellfish await the fisherman's tongs and dredges.

An official "mussel watcher" was stationed aboard the rig. He kept a dozen or so mussels in each of three wire baskets, suspended below the rig. Every four hours, the mussel watcher would hoist one of the cages aboard and check the current state of the mussels' happiness—too much vibration; too much noise; too many strange happenings in the water surrounding the rig and, it was believed, the mussels would become distraught, suffering anxiety and stress, leading to unhappiness. Which is to say they would "clam up" (shut their shells up tight), stop "eating" (siphoning nutrients) and refuse to "burp" contentedly.



Lee Hunt, President

If the mussels became unhappy, the mussel watcher could suspend drilling activity, allowing the bi-valves some time to get in a better mood and resume eating and burping.

It cost approximately \$1,000 a day to station the mussel watcher and his clump of caged mollusks on the rig. Numerous scientific instruments were used to measure the level of noise, vibration and impact on water quality near the rig. The "happiness test" for mussels was decidedly less rigorous: after hauling a cage of mussels up for inspection, the mussel watcher would press on their shells with his finger. One burp and it's back into the sea with the happy creatures and drilling continues. But, if one tight-assed little bi-valve refuses to burp, a \$150,000 per day drilling operation could be brought to a halt.

All went well, though, everything considered. The well was drilled. The rig did not damage the environment. And, for the most part, the mussels were happy. Then the rig moved away and the fishermen rushed in and scooped up all the happy mussels.

Bon appetite!! ■