A Glimmer of Sunshine in the Field

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Maybe there is a glimmer of sunshine in the business of seismic this year. This year marks the first in many where programs simply did not get shot. It marked a slight realization by seismic contractors that they may be able to do something on some of their risk clauses. The business case is changing in the field arguably with a number of factors occurring at the same time but nonetheless it represents a significant and fundamental shift in the world of the Canadian seismic contractor.

For many years now a number of the service and supply categories to seismic have done all right financially. This however was not in fact due to the seismic industry but instead represented the fact that many worked in other areas of the Oil and Gas Industry. As such they could price themselves accordingly – take it or leave it. The two areas that continued to suffer were seismic drillers and the seismic contractors themselves.

The drillers began to turn last summer. The demand for heliportable rigs was great and prices increased to reflect the supply and demand curves. Drillers are often highlighted by individuals that have been in the business for many years. Many of the "mom and pop" operations with a truck or two are reaching an age where they are contemplating retirement and/or they are just tired of the "keep it cheap" mentality of seismic and are ready to give it up. These folks do not really have any successors behind them. In general as they exit the market we lose both the people and the equipment. So continuing from the summer dynamics, supply into the fall and winter remained tight and a reasonable buck was there to be made.

The seismic contractors met through the summer and into the fall to work on the HR issue and get the wages up a bit for their workers. It was recognized that people would be in short supply and some agreement was needed in order to have a consistent approach to some young worker looking at doing some work in the seismic industry versus somewhere else.

The group also took a shot at some of their common risk clauses – weather, third party care and control, and extraordinary equipment damage to name a few. A few clauses caused some grief for clients – things such as a title retention clause for non-payment. Nonetheless it marked a fundamental shift and a change of thought of the contractors out in the field. The point going into the deal was to recognize that consensus, although preferable, was not necessary. Change in fact could be invoked by a majority of the available crews and channels and the rest would follow in time.

The usual challenges existed this winter - slow approvals, challenges with Aboriginal consultation, warm weather and a market already predicated on tight equipment supply dynamics. This did not drive up prices in itself but certainly worked to support the changes the contractors had made in the fall.

As well the financial market made a clear shift in its mentality towards seismic. Arc Financial supported the Norex purchase of Conquest Seismic in early 2006. Prior to that (in 2005) Norex had taken over both Geophysical Application Processing Services, a seismic company in Ontario and Norcana here in Calgary. Today we sit basically with 15 land seismic companies. In years past we have lost a few and then gained a few back. Today it seems unlikely that we will see any start-ups but in the end the market will no doubt dictate.

Something else that appears to be on the horizon as a positive force is the gravitation towards prime relationships, a concept rarely seen in the past decade in the seismic business. We are now seeing crews, services and suppliers booked up months in advance, in some cases without even having the work solidified to back it up. The fact remains if you don't book well in advance by the time you are ready to go there is no one to do your work. We have seen this in the Big Rig drilling market where small players literally get into queue waiting for a break in the action in order to steal a rig and a few days to drill their well.

We have heard that prices over all have increased drastically in some case but perhaps without the accompanying production and/or quality being there. Some programs may cost the client 180 % of a similar program a couple of years ago. This is a combination of many things – short supply, green workers, and a lack of good core people throughout all sectors of the supply chain in our industry. Seismic as a seasonal business has never had a great ability to keep people on in the long term. Our HR market is often 18 to 22 years of age and with a career expectancy of a couple of years – really a couple of seasons over a couple of years. As seismic becomes more of a year round entity, we are challenged with finding people. On one side those who have worked for us are used to going home in the spring and doing something else for the rest of the year. It is hard to get them to think differently and stay on year round. As well we are competing with other year round occupations such as the Big Rigs. This is difficult given the wage disparity between the starting wages of the two sub-industries of Oil and Gas.

As such the continued rotation in of new workers allows for little sustained gains in productivity. As seismic is such a linear operation a slow front end will delay all aspects following. It is predictable that continued challenges of this nature will shift the market to an hourly market instead of a turnkey one. If you do not have control of the contractors in front of you, you really will have no other choice.

This has therefore been a boon to multi-facet companies in the seismic business – companies such as Destiny Resources and River Valley Energy. These companies control more facets of the linear single seismic components thus creating value for their clients through greater production and quality deliverables. However, if the marketplace remains healthy, all the contractors will increase their ability to retain qualified people year-round and increase their production dynamics on a consistent basis.

The Association continues to work with governments on looking at things that would help with seasonality. We hope to see some breakthrough in a heliportable seismic royalty credit in BC this coming year. Conceptually such summer seismic would carry royalty credits that could be used on future producing wells. There is merit in such an approach as performance incentives

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have already worked on lowering the line widths. These were done through Timber Damage Assessment reductions on narrower lines but certainly something of a higher economic value is required as we move into heliportable seismic in a bigger way.

It has been typical to express the cost of seismic based upon the width of the line - the narrower the line, the more expensive the seismic. Equipment costs increase with smaller equipment as there is less of it and it is often more specialized. As well the equipment itself has less power and therefore production is slower. Using a conventional 5.5 wide meter line as a base an increase by 10 % occurs by lowering the line width to 4.5 meters. A 3.5 meter line costs about 30 % more than the 5.5 meter base. A 2.5 meter line is 60 % more expensive in comparison and finally a full heliportable program coming in at 1.5 meters will be 200 to 250 % more in comparison.

Warmer weather has caused shorter winter cycles over the past few years. This has also worked to change the mentality of the Oil Companies. Traditionally it was always advantageous to shoot a program in frozen ground conditions as access costs are less and bigger equipment can be used that tends to cost less. We now see more programs continue past spring freshet and into the summer and fall. Warmer weather is becoming a fact of life and business must adapt.

The argument has been that more expensive seismic will cause less of it to be shoot. The exploration budget for seismic is a finite number of perhaps a couple of billion per year in Canada. This gets divided down amongst services and suppliers with the actual seismic companies – the data recorders themselves – walking away with only about 25 % of this revenue number in total. However these numbers themselves suggest that consolidation is a good thing – fewer contractors to divide up the market – even if the total pot is static. It makes sense – more of the pie, better control over the supply picture and ultimately the pricing structures.

However a shift has occurred in the world – the environment is becoming increasingly important as a public issue. Oil companies are behooven to do a better job at reducing their impacts. The economic increase in the cost of a narrow line begins to pale when upper management has greater concerns with maintaining their right of access to drill and to build roads and other ancillary development. Narrower and more expensive seismic lines will become increasingly the norm.

There remains concerns with the future of seismic given the amount of available speculative seismic in the marketplace. Certainly there are oil companies that rely exclusively on spec for their needs however there are always those with more specific needs. As well the spec market itself continues to push seismic work into the foothills, into the north, and perhaps in time, into the interior basins in BC.

The world of seismic operations in the field is evermore complicated with regulatory agencies, consultation requirements, and greater public involvement in general. For today, however, things seem a little brighter for the business of the seismic contractors. R