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Oil Servicing Firms Benefit From Output Race

By The Moscow Times

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West Siberia could see output soar by 10 percent in the coming years. **Imperial Energy**

Global oil servicing firms are seeing strong growth in Russia as companies order advanced technology for depleted West Siberian fields in a move that may allow Russian output to grow further from current peak levels.

Russian oil output has grown by 70 percent since 1999 to exceed 10 million barrels per day and has become the world's largest. It has defied repeated predictions that it would fall as depletion of West Siberian fields outpaces production growth in East Siberia.

But oil servicing firms say the quest for the best equipment and technology may allow Russia to achieve even its ambitious targets to produce as much as 10.7 million bpd by 2030 if Arctic and offshore Caspian Sea fields are also put on stream.

"We are ordering more advanced, heavier and mobile rigs. Now operators are willing to pay more for better efficiency," said Kim Kruschwitz, marketing manager at Russia's top drilling firm, Eurasia Drilling.

He said West Siberia could see output up 10 percent in coming years despite a wide industry belief that its reservoirs were ruined by speedy Soviet exploration.

"The gain in efficiency and output that results from improved technology will only become more pronounced in the next few years, and I expect Russian production to hold around the level of 10 million barrels per day for years to come," Kruschwitz said.

The simple, vertical drilling phase is over for the majority of West Siberian fields, and to sustain output, operators are beholden to more expensive processes and hardware suited to extracting the oil in more technically challenging conditions.

Advanced drilling and oil recovery applications bode well not only for Russia's production levels, but are also a boon for the companies that specialize in drilling execution, well construction and oil field services.

"The market for enhanced performance drilling services in Russia is growing at a rate of 10 to 15 percent this year, outpacing even the drilling market," said Timothy Adams, business development head of Baker Hughes.

Russia Petroleum Investor sees the country's drilling and oil field services market reaching $13 billion this year, an 11 percent increase from last year.

Russia's top oil firm Rosneft said new drilling technologies have spurred output growth despite high levels of reserve depletion.

"New wells in Samaraneftegaz and Udmurtneft have been more productive than we originally planned. We are drilling faster, and the flow rates have increased," said Peter O'Brien, Rosneft's vice president for finance.

TNK-BP, which works on some of the country's most mature fields, also said new technology is being tested to increase output and cut costs.

"In many cases our technology pilots involve partnerships with service companies, with the goal being to access new or untapped reserves, optimize lifting costs and accelerate production," chief operating officer Bill Schrader said.

The bigger game-changer for drilling and services firms' business in Russia, however, is the development push on deposits in East Siberia, the Arctic and the offshore Caspian.

"We compete in the high-value, high-cost segment of the oil services market. It is very small at the moment, but East Siberia is about to change that," said Halle Aslaksen, vice president of Smith International in Russia.

"In East Siberia, the wells are deeper and more challenging, so to get the same amount of oil for the same price as the wells drilled in Western Siberia, you have to drill a lot smarter. And that means you need high-quality, efficient Western equipment," he said.

Smith, which oil services giant Schlumberger is set to acquire later this year, expects to see 30 percent annual growth in Russia because of new opportunities in East Siberia and the Yamal Peninsula in the Arctic.

Companies say East Siberia's remote geography also plays a big role in producers' willingness to pay higher rates than in West Siberia for rigs, well equipment and drilling services.

"Western Siberia has hundreds of the same rig models, so if one breaks down, you've got another sitting idle nearby to rob for parts. In East Siberia, you've got to have good equipment; that is not negotiable," said Jon Van De Sand, Smith's regional manager.

Baker Hughes, the world's No. 3 oil service firm, has Russia as one of the world's top high-growth regions through 2013 and expects East Siberia's share in its Russian revenues to rise to 30 percent from single digits now.