

# Governing Energy

## Rig Up

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Recently the US oil drilling rig count is steadily increasing week over week.<sup>i</sup> This despite crude oil prices remaining below \$50 per barrel.<sup>ii</sup>

This seemingly defies logic and conventional wisdom—perhaps not! For over a year, this blog has addressed issues surrounding the structural realignment of the oil and gas industry.

Enabled by a suite of technologies, firms are discovering that profits can be found in assets that are managed differently than in the past. This bodes well for some economic actors and ill for others.

Blasting along at \$100 oil, many were lulled into the belief that the good times would continue indefinitely. Bankers loaned, operators spent and expense accounts were lavish.<sup>iii</sup> As all now know, bankers are left with bad loans, some operators are bankrupt and expense accounts shut down.

Those that have renovated their cost structure are adding shareholder value and perhaps we are seeing the emergence of a transformed sector. Economic laggards do not have the luxury of time on their side!

Previously, we discussed the **Convergence of Exponentials** and its impact on the ability of firms to drive profitability in tough times and perhaps now, restructured markets.<sup>iv</sup> *Reducing operating costs* and *increasing asset performance* using *knowledge* is showing success during a deep energy recession.

Some still argue that the so called Big Crew Change will drain the sector of much experience and expertise.<sup>v</sup> The counter point is that this event is largely past.<sup>vi</sup>

The same case can be said for the current oil price trading range. While cyclical and subject to geopolitical issues, perhaps \$100 oil is a thing of the past and not likely to be seen again.

Analysts keep pushing out the expected date for the return to strong prices. One now predicts the rebound will be delayed to 2019 when current offshore production peaks and long idle equipment and personnel are put back to work.<sup>vii</sup>

However, by 2019 shale and others may have captured market share at significantly lower break even points. This market segment may not materialize as many hope.

According to OPEC Secretary General Abdalla Salem El-Badri, “Any increase in price, shale will come immediately and cover any reduction.”<sup>viii</sup> Does this basically put a cap on the crude oil trading range?

Almost 15 years ago, we wrote, “Building on the theme that *hope is not a strategy*, many organizations deserve the IT (*Information Technology*) they have. Hope that IT would bail the firm out and by itself drive change that has been misplaced.”<sup>ix</sup> This was addressing a disruptive force from that era.

Waiting and hoping for a rebound is not a good strategy today either. If some can get their cost structure aligned with the current market, others can as well as new disruptive forces shape markets again. Might be time to “rig up” a better business model.

## **How well is your organization prepared for sustained current market conditions?**

### **About the Author**

Dr. [Scott M. Shemwell](#) has over 30 years technical and executive management experience primarily in the energy sector. He is the author of six books and has written extensively about the field of Operations Excellence. Shemwell is the Managing Director of The Rapid Response Institute, a firm that focuses on providing its customers with solutions enabling Operational Excellence and regulatory compliance management. He has studied cultural interactions for more than 30 years—his dissertation; *Cross Cultural Negotiations Between Japanese and American Businessmen: A Systems Analysis (Exploratory Study)* is an early peer reviewed manuscript addressing the systemic structure of social relationships.

Free [Economic Value Proposition Matrix](#) version 2.0 (Realize the value of your investment)

### **End Notes**

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<sup>i</sup> <http://247wallst.com/energy-business/2016/08/13/why-7-straight-weeks-with-higher-oil-rig-count-matters-so-much/>

<sup>iii</sup> <http://www.nasdaq.com/markets/crude-oil.aspx>

<sup>iii</sup> <http://blogs.wsj.com/numbers/100-oil-is-here-to-stay-1712/>

<sup>iv</sup> Shemwell, Scott M. (2015, August 24). Technology Price Point Changes Everything. *Governing Energy*. PennEnergy.

<sup>v</sup> <http://oilpro.com/post/22284/big-crew-change-knowledge-loss-management-change>

<sup>vi</sup> Shemwell, Scott M. (2015, July 7). The Boomers Have Left the Building. *Governing Energy*. PennEnergy.

<sup>vii</sup> <http://oilprice.com/Energy/Oil-Prices/Why-Oil-Prices-Might-Not-Rebound-Until-2019.html>

<sup>viii</sup> <http://oilprice.com/Energy/Energy-General/Rudderless-OPEC-Doesnt-Know-How-To-Respond-To-US-Shale.html>

<sup>ix</sup> Shemwell, Scott M. (2005). Disruptive Technologies—Out of the Box (originally published in 2002 as part of a newsletter series). *Essays on Business and Information: Alignment Topics of the Early Twenty-first Century*. P. 124. Xlibris.