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March 2007

EnergyPoint RESEARCH

North American Land Drillers' Ratings Fall

Recent Moderation in Activity an Opportunity to Regroup

Demand for North American (N.A.) land-drilling services has leveled off for the time being as a warm first-half of winter and expectations for shoulder-month reductions in gas demand have given many producers pause regarding their drilling programs. From our perch, we believe a modest slowdown in activity could prove to be a **blessing in disguise** for many drillers, who could use the opportunity to regroup after a frenzied couple of years that, despite record earnings, has cost them in terms of customer satisfaction.

The average customer satisfaction rating (on a 10-pt scale) of the five major N.A. land drillers rated in EnergyPoint Research's Drilling & Wellsite Contractors Survey [Helmerich & Payne (HP), Precision Drilling (PDS), Patterson-UTI (PTEN), Grey Wolf (GW), and Nabors Industries (NBR)] plummeted from **7.85** (via 93 total evaluations) in 2004 to **6.69** (via 180 total evaluations) in 2006. All five drillers saw their ratings fall over the two-year period, with Grey Wolf experiencing the largest decline by a wide margin followed by Precision Drilling and Nabors. Even group leader HP's rating fell, though the company still maintained its top-quarter ranking among the larger group of contractors and service companies rated in the survey.

About More Than Price

Overall, the largest ratings decline was in the area of pricing as respondents expressed frustration with having to pay more for deteriorating performance and service. Reflecting this sentiment, the average **price-for-quality** rating plunged to **6.36** from **7.77** two years ago. Grey Wolf registered the largest decline in this category as well, followed by Nabors and Patterson-UTI.

While it's tempting to focus on the price component of the ratings decline, the real story is the dissatisfaction respondents registered in other areas. Contradicting what we suspect some contractors believe, analysis suggests that price is <u>not</u> a primary driver of customer satisfaction these days. In fact, people and performance are much stronger determinants of how a contractor rates in our surveys. Hence, declines in **service** and **professionalism** – led by deterioration in ratings for flexibility, responsiveness and accountability – appears to be the more telling trend. **Job quality** was also a sore spot with many, including the extent to which contractors failed to convert lessons learned into performance improvements across jobs.

All drillers could stand to improve their focus on the customer these days, but some more than others. Below is our take on each of the five major N.A. drillers in terms of their current customer satisfaction situation:

Helmerich & Payne (27 Total Evaluations in 2006, 18 Evaluations in 2004)
Helmerich & Payne was the highest-rated N.A. land driller in EnergyPoint's 2006 survey. While its much-ballyhooed FlexRig attracts the attention of customers (and the envy of competitors), HP's standing as a driller-of-choice has to do with more than just its quality iron. In addition to rating tops among the five drillers in the area of technology in the 2006 survey, the company finished first in terms of reliability, job quality and corporate capabilities. In the area of safety and environmental, HP's ratings actually climbed (a rarity in the survey) from already-high levels two years ago.

Precision Drilling (35 Total Evaluations in 2006, 17 Evaluations in 2004)
During the period covered by our latest survey, PDS converted to a Canadian income trust. It also sold its energy services and international drilling operations to Weatherford, losing considerable management talent (see EnergyPoint's Feb 2007 Note) and some highly-regarded complimentary offerings in the process. Like its peers, PDS suffered ratings declines in various attributes from 2004 to 2006; yet none of these declines could be characterized as drastic. The company did manage to maintain its top spot in the areas of service and professionalism and price-for-quality. Time will tell whether PDS is the same strong performer it was prior to its transformation, but the evidence so far seems to suggest it probably is.

Patterson-UTI (35 Total Evaluations in 2006, 15 Evaluations in 2004)
Although the impact a vendor's technology can have on satisfaction ratings can often be overestimated in our opinion, PTEN's markedly-low ratings for technology in the 2006 survey is hard to overlook. We understand and acknowledge that PTEN's preference for rebuilt rigs has resulted in impressive returns on assets over the years. But we also point out that its dependence on such a strategy could limit the list of operators for whom the driller can effectively work in a more competitive market. Notwithstanding the company's choices in terms of the rigs it operates, PTEN deserves credit for its increased satisfaction ratings in the area of safety and environmental over the last couple of years.

Grey Wolf (21 Total Evaluations in 2006, 15 Evaluations in 2004)
Grey Wolf finished second among the five major drillers in our inaugural 2004 survey then saw its ranking plunge to fourth in the 2006 survey. There's no doubt the company can drill good wells, but over the last couple of years GW appears to us to have fallen victim to the good times as respondents' satisfaction with price, reliability, technology and job quality all declined materially while consistency waned. In addition, we believe GW's pre- and post-job interactions with customers might be in need of an overhaul given the particularly low ratings the company registered in these areas.

Nabors Industries (62 Evaluations in 2006, 28 Evaluations in 2004)
Being large and aggressive can certainly have its advantages. But when it comes to customer satisfaction, these traits can sometimes be problematic. NBR finished last in total satisfaction among the 30 contractors and service companies rated in the 2006 survey. This was a decline from an already-weak showing in 2004. Especially low marks came from respondents at smaller operators, who appear to have had disproportionate exposure to NBR's more marginal rigs and crews. New rigs on order could help improve the situation, although recently-announced delays in delivery for some of these units might be symptomatic of other underlying issues.

An Itch to Switch?

So what kind of reactions can drillers expect from customers who have been disappointed with their contractors performance over the last couple of years? If the following comments collected during our latest survey from a few particularly-disgruntled respondents are any indication, some customers appear poised to go to great lengths to find alternative suppliers when the opportunity arises.

"We [have] used [this drilling contractor] where there are no alternatives; they are in it for the money only. Very little professionalism or care or respect for their personnel or their customers in my opinion. The corporate mentality is super-selfish."
[Primary Decision-maker, Drilling Engineer, Independent E&P]

"[This driller's] arrogance shown toward my company will not be forgotten when this boom slows down."
[Primary Decision-maker, Drilling Manager, Independent E&P]

"I have experienced a take-it-or-leave-it attitude within [this drilling contractor]. Due to the current market conditions, they have displayed the attitude that they are doing the customer a favor to work for them. [In my opinion], times will change and [this drilling contactor] will be in trouble."
[Primary Decision-maker, Drilling Supervisor, Multinational E&P]

"[This drilling contractor's] corporate strategy is [in my opinion] to go after a '10' dayrate with a '4' rig, and that won't play well when things slow down."
[Primary Decision-maker, Drilling Manager, Independent E&P]

Certainly, it's both right and fair that land drillers benefit in the upcycles, especially since they seem to bear so much of the pain in the downcycles. However, enjoying the fruits of good times is one thing; enjoying them with insufficient regard for the impact on customers is another. Stated another way, while increased dayrates may be an inevitable and even justified byproduct of healthy markets, precipitous declines in customer satisfaction do not necessarily have to follow. In the end, drillers and other industry vendors that are not mindful of this fact run the risk of **attracting** and **rewarding** more capable **competitors** that are.

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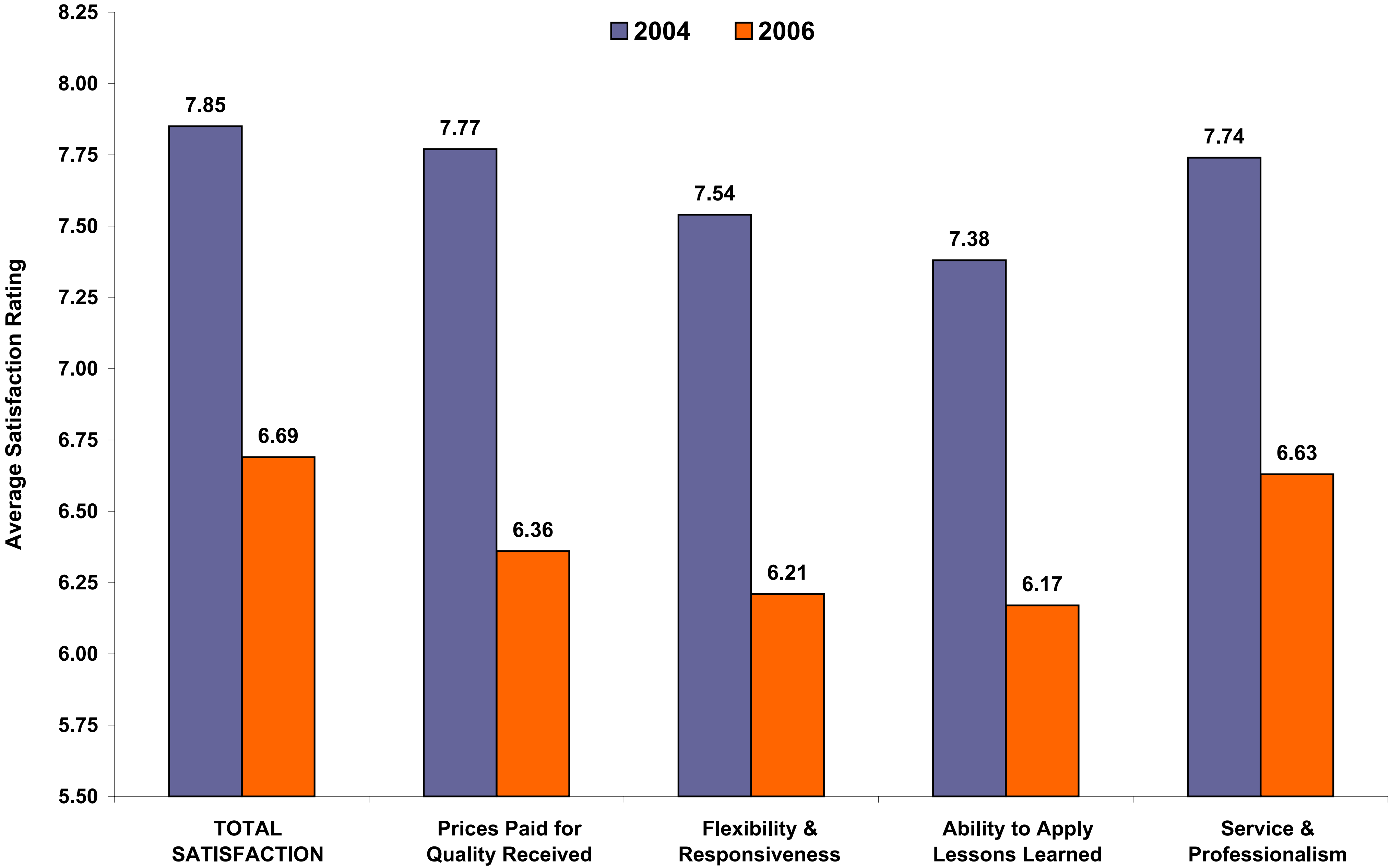
Major N. American Land Drillers' Ratings Fall

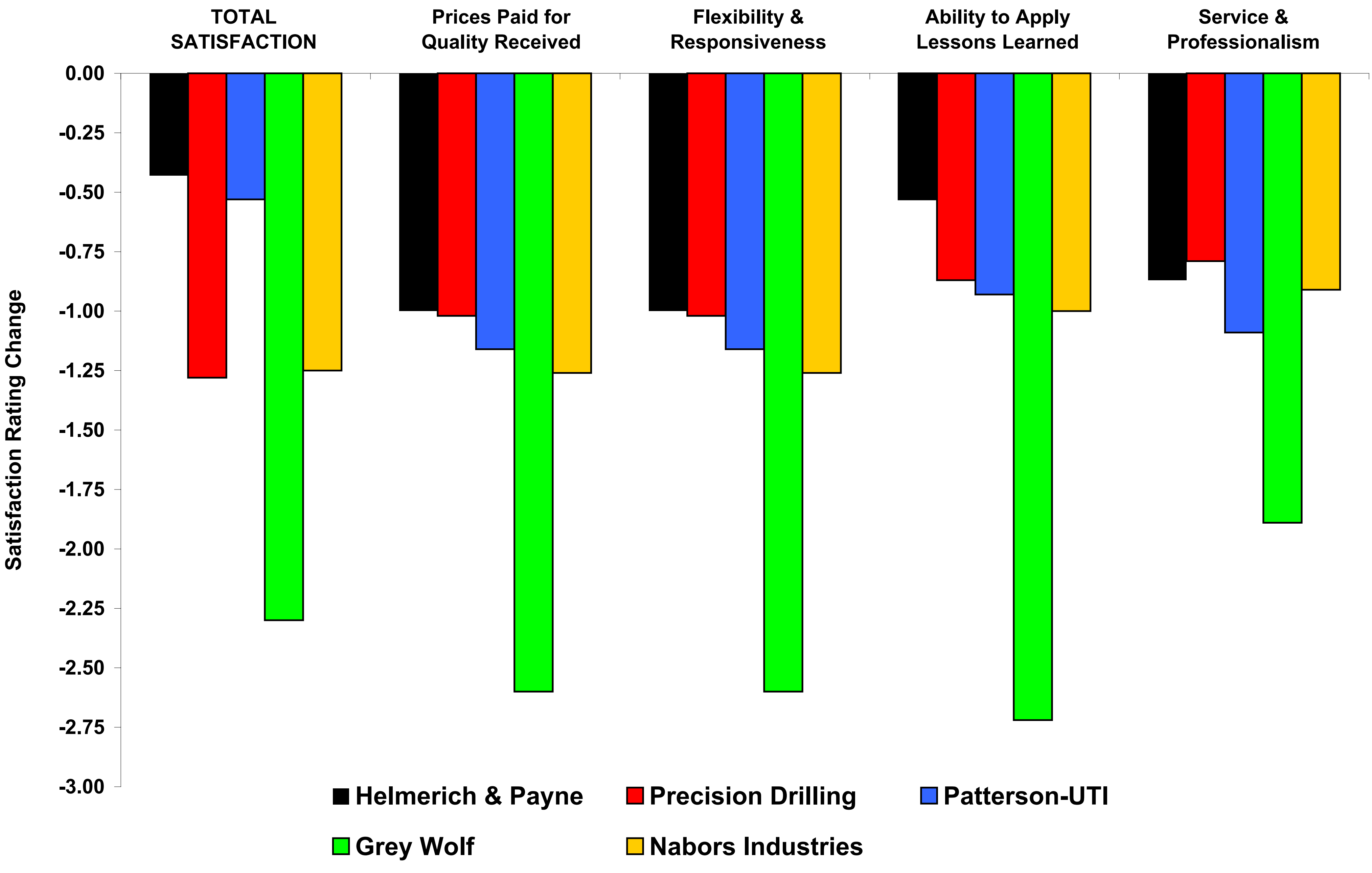
Average Ratings for HP, PDS, PTEN, GW and NBR



Source: EnergyPoint Research's 2004 and 2006 Drilling & Wellsite Contractors Surveys

Major N. American Land Drillers' Ratings Fall

Declines in Individual Drillers' Satisfaction Ratings from 2004 to 2006



Source: EnergyPoint Research's 2004 and 2006 Drilling & Wellsite Contractors Surveys

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