NEW CONTRACT SCHEME ALIGNS BENEFITS

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The depressed oil prices of recent years obliged operators to keep CAPEX and OPEX as low as possible, greatly changing the contract format, particularly with drilling companies, says Alexander Moya, Operations Manager of Simmons Edeco Mexico. The oil field services company saw this as an opportunity to offer a contract scheme that aligns the benefits for the integrating service company, the operator and itself. "Our option makes projects viable for our clients and for us. If operations take more than a certain amount of time, only the operational costs need to be covered."

Moya says the entire industry, including Simmons Edeco, was hit by the new price reality in the sector and saw the need for change. He explains that, prior to 2015, the norm was for operators to sign service contracts on a daily basis with different providers involved in E&P activities. With a need to reduce CAPEX and OPEX, this process evolved into integrated service contracts that are awarded to only one service provider at a fixed amount. "Considering that drilling costs can come in at up to 35 percent of the exploration budget for an operator, the importance of the effective integration of this service is clear," says Moya.

Although Simmons Edeco's entire fleet was stacked along with the rest of the industry, Moya sees a bright future for the company in Mexico. To that end, it was recently awarded a contract by Weatherford to provide drilling services to Renaissance Oil and Lukoil for its drilling program on the Amatitlán block in Veracruz, targeting the Chicontepec formation and Jurassic shales.

The Chicontepec holds 17 billion boe but it is a complex oil and gas reservoir, where drilling costs can be up to five times the cost of drilling in a conventional reservoir. Although a major field was discovered in 1973, it was found to contain extra-heavy crude, which presents difficulties in the refining process. Despite sizeable investments, with the announcement by then-President Vicente Fox in 2006 that US$37.5 billion would be spent over the following 20 years on the formation, results have been relatively underwhelming. The field produced around 39,000b/d as of October 2016.

According to Moya, the high costs involved in Chicontepec continue to make operators cautious when venturing into that area. And since the Jurassic shale resources are unconventional, this also makes regulators, such as ASEA, more cautious about the safety and environmental permits they provide for the development of these types of fields.

But Moya is not overly worried. He says Simmons Edeco is more than familiar with the complexities of the Mexican market due to its broad experience in the country. "Simmons Edeco has performed many drilling activities in Mexico and we have a strong performance history in terms of equipment and personnel reliability," he says. "Our senior personnel have over 20 years in the Mexican market and we are further bolstered by our 55 years of experience internationally. Clients consider us one of the strongest options in the market due to the fact that all our services are fit-for-purpose with some of the lowest nonproductive times on average. In fact, Simmons Edeco's customers have indicated that the wells are being completed safely, ahead of schedule and under budget, thereby creating favorable economics for the Chicontepec play."

Having international and national experience means Simmons Edeco is well-versed in drilling activities. As a result, the company places great importance on anticipating client needs to ensure a long pipeline for oil and gas works. "Drilling activities are some of the most critical in the industry, as they can influence the entire life of the field," says Moya. "Because of that, we have been working very closely with our clients in terms of complying with all the regulations published by CNH and ASEA." He also warns that any mistake at the drilling stage could negatively impact the entire field.

Although operators may have international experience, they are still getting used to the Mexican regulations, and Moya points out that Simmons Edeco is not prepared to compromise on quality and compliance. "We have seen operators working to understand the new model and adjusting their CAPEX and OPEX according to the way work must be done in the country," he says. "We are open to negotiating but once a bottom line in terms of QHSE has been hit, we do not go lower. That is the way we work and ensure our long-term presence in the country."

In addition to local regulations, local content can also create a stumbling block for international giants, especially those that place a great deal of reliance on their foreign assets, explains Moya. "Before oil prices fell, many companies did not work to develop their local value chain in terms of personnel and equipment," he says. "As a minimum percentage of local content is required, they are struggling to provide enough staff and services." Simmons Edeco, on the other hand, thought ahead and can offer approximately 70 percent of local content in its activities, while the average requirement does not usually surpass 40 percent. "This can be a big differentiator when offering our services, given the importance of local content requirements," Moya says.

Simmons Edeco working on Amatitlan well 1754 for Renaissance Oil, Veracruz