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Testimony

Oversight Hearing on the Aging of the Energy and Minerals Workforce;
A Crisis in the Making?

SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES
COMMITTEE ON ENERGY AND COMMERCE
UNITED STATES HOUSE OF REPRESENTATIVES
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My name is Anthony Stamato and I am appearing today on behalf of Dick Alario the President and Chief Executive Officer of Key Energy Services, Inc and The International Association of Drilling Contractors (IADC), of which Key is a member. I want to thank Chairwoman Cubin and the entire Subcommittee on Energy and Mineral Resources for holding this hearing on the Aging of the Energy and Minerals Workforce. This is a growing concern for our company, and for the entire onshore U.S. drilling and well-servicing industries. Although it is not yet a crisis, I remain convinced that it will soon be a crisis for us and much of the industry if we don't take corrective action.

Clearly, we are now in an era of insecure and expensive oil and gas imports. Expanding domestic oil and gas supplies is critical to our economy and our energy security – it remains a high priority for the country. We also recognize that there is a growing consensus among policy makers that we can only enhance our energy security if we move forward on regulatory reform, gain greater access to public lands, and implement common sense environmental standards. These are all important components of our national energy security strategy. However, there is another important element in solving the problem; and I commend the Committee for identifying the workforce issue as a critical component in our energy security strategy. Even if we achieve all the required reforms to improve access to the U.S. resource base, service companies like Key Energy still may not have a sufficient number of adequately trained crews to staff the rigs required to keep the oil and gas flowing. Today, we are experiencing crew shortages in several of our operations in the U.S.; and the prospects for improvement are not great.

We can speak with some authority on this issue because Key Energy Services is the largest onshore, rig-based production services company in the world. Our involvement in production mirrors the life cycle of a well from drilling and completion activities through servicing and workovers and ultimately to plugging and abandonment. We have over 8,000 employees at 137 field locations in 17 states and own nearly 1500 service rigs. Many of our rigs have been refurbished or upgraded to increase their reliability, safety and performance. We provide a range of production services (including horizontal recompletions), oilfield trucking services, fishing and rental tools and pressure pumping services. Our operations are primarily conducted within the continental United States, but we do have operations in Argentina, Canada, and Egypt.

Key also operates a fleet of 79 drilling rigs, specializing in shallow to medium depth wells, including coal bed methane. We have a fleet of over 2,200 vehicles which are used to extract fluids from pits, tanks and other storage facilities; transport brine and other drilling fluids to and from well locations; transport produced salt water to disposal wells; and haul equipment to and from the well site.

Over the years, our business has been viewed as labor intense and not very innovative. This is changing;

and, as a result, putting additional pressure on us to attract and to retain employees with broader skills. Over the last two years, we have been placing computers on our rigs utilizing wireless communications to implement our proprietary KeyView® technology that permits the operator and/or oil companies to monitor onsite operations in real time from any remote internet site in the world.

In addition to technology advances, we also have to keep our eye on safety. Our objective is not simply to reduce the number accidents. Our ultimate goal is to eliminate them. We owe this to our people, to their families, and to our customers. Our efforts in this area are relentless, because the challenge is great. Our rig hands have full authority to shut down any rig that is operating in an unsafe environment regardless of instructions from the owner of the resource. This authority comes directly from our board of directors.

While there are many aspects of the well servicing business that are complex and sophisticated, the inescapable fact is that much of the work is both difficult and dirty. This is particularly true of the entry-level positions where we are having a hard time recruiting and retaining people. (I know Chairperson Cubin has first hand knowledge of these conditions) On top of these inherent challenges, we are also subject to wide swings in commodity prices that have left the industry with a reputation of being an insecure career for long-term employment. Government policies have also added to uncertainty in the business as new regulatory requirements, delays in gaining permits, and environmental reviews often put crews out of work for months at a time.

At the entry level job of rig hand, it is not unusual for Key to experience turnover rates in excess of 100 percent, and we have one of the lowest turnover rates in our part of the industry. We provide good wages, health care benefits, and an entry level training program, but this is clearly not enough. We need to offer new entrants a positive outlook for the future and a reason to commit to the business.

In addition, we are facing the "graying of our industry," which is particularly true of our mid and senior level managers who have faced and survived the "ups and downs" of the business. Over the next ten years, we are going to lose to retirement many of our experienced managers beginning with yard supervisors all the way up to division and regional managers. Another distinguishing characteristic of our workforce is that over 60 percent of our younger workers are of Hispanic heritage, and many of these workers have limited English skills. In some cases, we have worked with local community groups to provide English language training for our Hispanic employees. In some locations, we have extended this training to their families as well.

We are taking measures to address the entire range of challenges to build and maintain a qualified workforce. This means we must commit the resources and the management attention to train our production workers in the broad range of skills and procedures to perform at the highest level of operational effectiveness and safety at the well site and in all environments in which they work. This requires a continuing education program not only on new job techniques, but also on the all-important matter of safety.

While the problem is difficult, there have been a number of positive steps taken. In this regard, we would like to commend the Department of Labor, which through its workforce grant program, has begun a unique public/private partnership for training oilfield workers. Programs are now underway at San Juan Community College in New Mexico, Midland Community College in Texas, and High Plains Technology Center in Woodward, Oklahoma. At each of these schools, DOL provided grant funds, ranging from \$1-3 million each and local businesses have contributed equipment and funds. For our part, Key has provided working rigs to support the training programs at all three institutions. We like these training programs, they are cost effective, involve the local community, and can give the students a broad set of skills that are very attractive to our business. The program is not expensive, and could be easily expanded to several additional institutions. We ask that the Congress and the DOL take a hard look at this effort and consider sustaining it on an annual basis.

It would be impossible to cover all of the recommendations for improvement in a document of reasonable length. I would like to offer just a few for your consideration:

- Expand the nature and scope of the DOL program, because few institutions have taken advantage of it. In some cases, tuition relief is not provided to general population students.
- Establish the DOL program on an "evergreen" basis enabling the participating training centers to build a stable staff.
- Strengthen the recruiting efforts of the DOL's one-step system to attract more students for training. For example, in the past year, San Juan Community College's energy program has received fewer than a dozen referrals while the County's unemployment rate is 7%.

- Build a partnership among industry, government, and Hispanic organizations to improve English language skills and to enhance the upward mobility of this existing relevant labor pool.
- Provide grant support to create management development programs for potential middle and senior level management modeled along the lines of Key's Rising Star Program, which is an eleven module, college level curriculum. The program is designed to equip current and future managers to handle the requirements of supervision.
- Create support services for "workers in training" to provide them with some financial stability to bridge the gap between training and employment.

In closing, I would like to again thank the subcommittee for the opportunity to comment on this critical issue. The problems we face are complex and do not lend themselves to simple solutions. But, I am very encouraged by the work of this group and its ability to bring attention to this important matter.

Thank you.