ChevronTexaco initiative reduces number of drillers

KEVIN LACY, WELL Engineering & Operations Advisor for **ChevronTexaco**, outlined the company's initiative for reducing the number of drilling contractors it uses for its exploration programs in the US.

The initiative began in 2001 and was based primarily on the drilling contractor's safety performance.

The program has resulted in significant reductions in accidents during the past year. The program also resulted in a significant decrease in the operator's approved drilling contractors.

The model ChevronTexaco was going to use didn't exist at the time, but Mr Lacy was convinced that it could be developed. "What I wasn't so convinced about is whether we would be able to stick with it or our contractors would be able to stick with it," he said.

One aspect of the model was the reduction in the number of contractors but those contractors were going to receive much more of ChevronTexaco's business.

The company presented its business model at meetings with its land and offshore drilling contractors. The operator set sustained safety performance as the primary criteria for selecting approved drilling contractors. The other criteria was management capability.

ChevronTexaco's proprietary business model involves indexed rates and performance-linked rate components and incentives, and a balanced scorecard for safety, well performance and rig efficiency.

"We looked for leadership in companies that were focused on their safety management systems and for someone who was actually seeking a different way to do business," Mr Lacy said.

"Frankly as we went through this process, we left behind some companies that we had done business with for years."

The operator adhered to a couple of principles in the initiative. First, it wanted to find a way to move the dayrate issues to the side, not to ignore or compromise dayrates but to make sure that one party to a contract was not unhappy.

For the drilling contractor, Mr Lacy said, it is utilization and top dayrate. For the operator it is well objectives and reliability of the operation itself. The dayrate is only a small piece of the total value, he noted, and that has to be kept in perspective.

"We have some rigs on long term contracts and we have got some rigs onshore, but we went from 26 drilling companies down to six and those companies have a very sizable part of our business right now in North America."

"We have applied the business model to four offshore drilling companies and two land drilling companies," Mr Lacy said, "and I would say about 90% of our business is restricted to those six companies right now."

ChevronTexaco is expanding the business model overseas. There have been some different issues surrounding the initiative overseas but it is fully implemented.

THE MODEL

The proprietary business model involves indexed rates and performance-linked rate components and incentives, and a balanced scorecard for safety, well performance and rig efficiency.

"It works exceptionally well," Mr Lacy emphasized. "We have rigs and companies that have done very well with this model. When their performance is below average it works that way also, so our model keeps us focused on what we are supposed to be doing and the well objectives."

The model also keeps the contractors focused on rig performance and safety. The operator performs six month evaluations.

ChevronTexaco focused on three things for its safety improvement plan: leadership behavior, rig site incident-free culture and drilling contractor partnership.

The program has resulted in a dramatic decrease in the number of lost-time incidents (LTI). The Well Engineering & Operations related LTIs totaled 21 in 2001 and rose to 25 in 2002. To the end of September 2003, only four LTIs were recorded.

One aspect of ChevronTexaco's business model was the reduction in the number of drilling contractors but those contractors were going to receive much more of ChevronTexaco's business.

Additionally, ChevronTexaco's contractors recorded two fatalities in 2001. That figure was reduced to zero during 2002 and through September 2003.

HELMERICH & PAYNE

A drilling contractor was working for ChevronTexaco in East Texas on a footage contract. The contractor was drilling the well in an average of 26 days. ChevronTexaco examined its safety record and decided to remain with them but wanted to change the footage to a dayrate contract.

Over time the contractor's performance had become unsatisfactory, and the operator contacted **Helmerich & Payne**. ChevronTexaco decided to include H&P in its list of six drilling contractors.

The typical daily rig cost in the region was about $8,000. ChevronTexaco contracted an H&P rig for around $12,000.

"Most people asked why we would bring that kind of rig there." Mr Lacy said. "We did it because we thought it was a good opportunity with the right equipment and right business model."

The first well was drilled in 17 days against a 14-day model. That didn't cover the extra $4,000 dayrate so ChevronTexaco worked with H&P in terms of well design and daily operation to reduce drilling time. H&P is now drilling the wells in about nine days, Mr Lacy noted.

"I think their phone started ringing as others saw what they can do," he said. "It's a new business opportunity for them."

"With this business model we wanted to not only develop business for ourselves but make sure it opened opportunities for (contractors) as well," he said.

GLOBALSANTAFE

GlobalSantaFe was drilling for ChevronTexaco at a rate of about 1,000 ft per day offshore Thailand. That was after the wells were optimized, and was double the previous rate.

When GlobalSantaFe was included on the operators list of approved drilling contractors and began working within the business model, there was another dramatic improvement in feet drilled per day, this time more than doubling from 1,000 ft to about 2,500 ft per day, according to Mr Lacy.

"As the crews focused on the things they had control over," Mr Lacy explained, "they knew what it took, and with the incentives in place we made some pretty good improvements."

"For ChevronTexaco," he continued, "when we stopped worrying about things that are really the contractor's business, our staff pays more attention to the things that they are good at."

"In Thailand not only did we have a tremendous success with the model, we have had lots of time to take our drilling staff and work on things like environmental discharges, new equipment designs, etc."

"It all builds on each other."

FINAL THOUGHTS

Mr Lacy emphasized that if a drilling contractor is not in the business to deliver an incident-free operation, the company is in the wrong business. And the company won't get ChevronTexaco's business.

He also noted that ChevronTexaco is not in the business to support poor business practices.

"Decisions that a contractor makes when prices are high or prices are low," he said, "you live with for a number of years. Companies have gotten themselves in trouble, they have gotten overextended, and frankly there is nothing an operator can do to help out (the contractor) in that situation if (the contractor) made poor business decisions."

The operator is not out to drive its suppliers to the lowest common denominator, the most desperate competition, Mr Lacy said.

"Our model is built on what it takes to pay your bills and cover your cost and what is the up side," he explained, "and that is the only way to do this long term."

"First and foremost," Mr Lacy emphasized, "we put a priority on safety and we are going to put a priority on management capability operation."