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Focus on Contracts

Drilling Contractor

The operator's hey-day

WITH EXCESS everything in the oilfield (except money) this year, 1986, should be one of the best periods in history to drill wells. At the lowest cost to operator the finest exploration data, best drilling and production "know how" and equipment, the most desired drilling practices, with experienced personnel, are all available. It's like six prostitutes working an area where only two fellows are seeking a good time!

After selection of a good location, some of the available items an operator today might consider for most favorable results in selecting and awarding contracts include:

1. *Equipment and Service* – Like airlines, the best drilling contractors and oilfield service companies are frequently offering their customers "prime super service" for less than their cost – just to stay in business by maintaining their organization and equipment. Longer term bargain rates are available for the industry's finest.

2. *Flexible Pricing* –

(A) *Financial Status:* While the well known types of contracts (daywork, footage, turnkey, incentive, etc.) are available, an operator should also be most concerned with the present financial status of the drilling contractor and other service companies before selecting the type of contract or service agreement. A turnkey all-risk contract with a heavily leveraged firm may present serious problems if trouble arises and the commitment is not met.

(B) Contractor/Service Co. Participation: An operator's cash and/or unsold working interest problems can be solved at times by joint participation in the well by the drilling contractor or service company for services rendered. The contractor furnishes the rig and the service company provides the pipe, well equipment, cementing service, etc., for a working interest. If the well produces, all concerned will profit. If dry, some cash flow results.

3. *The Contract* – As previously stated, today the operator can probably dictate the terms of all agreements on the well. Insurance terms and limits as well as financial status should be verified by the operator. Many risks are uninsurable and uninforcible. Also, some joint account auditors advise their own companies not to pay the operator for their share of costs when contractors are unable to meet costs contractually assumed. A legal vendor's lien on a producing well for unpaid costs is tough to remove – and the pipeline, after notice, will not pay for the product!

With continuing cooperation among all segments of the producing industry and less government regulations, the surviving companies should emerge wiser, profitable, better friends and ready for what comes in the future. □

Questions welcomed

READERS WITH questions concerning both IADC and API contracts are encouraged and invited to submit them in writing to the author, c/o Drilling Contractor, P.O. Box 4287, Houston, TX 77210. Answers will appear in the column in upcoming issues of the magazine.

Jack Magner is one of the shapers of IADC contract forms. An active director of IADC since the early years of the organization, he has been a member of the executive committee, a regional vice president and a chapter chairman.

Magner is also well known for his role in crafting the API drilling contract. Both documents came after long years of patient work and thorough revisions. □

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