COMMENTs

on the
DRILLING CONTRACT

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The Driving Contract. (1) In general

Whether the contractor revises the terms of the agreement before submission of his bid, or after having been awarded the contract, the necessity for checking the terms of the agreement are altogether obvious. In point of fact, the terms of the contract must have more to do with contractor’s success or failure, from a financial standpoint, than the footling price and day rates themselves, as longer values are at stake. However, although the matter of checking the contract should—the because of its perpetual recurrence—have crystalized into a routine practice, common experience indicates the prevalence among contractors of a laxness and complete absence of method that is inevitable in view of the vital importance of this procedure.

The contract is almost inevitably prepared by the contractor’s representative. More frequently than not, the actual transcription or preparation of the agreement itself is regarded as a routine or perfunctory matter. In many cases, a clerk or secretary (not conversant with all the facts, nor apted to the bullying telephonic evocations) that have prevailed in awarding the contract fills in a few blanks of a printed form, upon scanty advice from the belabored prediction superintendent, or chief clerk, who received and checked the various bids submitted. If a lawyer drafts the contract, he frequently has no adequate information on which to proceed.

Of course, all contractors check such items as the footnote price and day rates. However, these are not the point of this discussion. They are self-evident, and there is little in the way of argument save that they should be presented in a clear, concise, and properly-worded form. The main point is that contractors tend to avoid misunderstanding and to eliminate the necessity for subsequent negotiation of important elements of the contract, after the contract has been awarded, and the work is in readiness to proceed.

Checking the Terms of the Drilling Contract

The writer is fully cognizant with the fact that the given points have been recommended time and again, but it is required as a good practice, where the circumstances do permit its application.

Need for Complete W.R. Specifications

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When asked to submit a bid for the drilling of a well, the contractor, in order to intelligently and accurately estimate his cost, should be furnished with complete specifications as to the work to be done, the equipment to be furnished, and the practices to be followed by the operator. Failure to obtain full information in the outset frequently results in erroneous calculations, and subsequent misunderstanding.

For example, if operator (intending to require special blowout preventer set up, i.e., three blowout preventers and high substructure) makes only a generalized requirement as to such equipment, and contractor—on the basis of past experience with other operators—erroneously assumes that dual blowout preventer equipment and less substructure will suffice, contractor’s price will omit a material and substantial element of cost.

Later, when operator requires such equipment, contractor may even have to purchase it; and of course, contractor takes a loss under the price submitted; or, operator may make allowance over and above the original offer price tendered, which is unprofitable, in either case. Moreover, such a result undermines the essential equity of competitive bidding, because the lowest bidder, who actually feared an emergency, and specifications and was able and willing to comply therewith, was not awarded the contract.

Failure of the operator to furnish—in or of contractor to obtain—full and complete information, particularly a “statement of the minds,” and defeat the first requisite of a contract, namely, a mutual or bilateral understanding.

It is therefore, respectfully submitted and recommended that operators would do well to set up a uniform and complete submitted form which would give each contractor his bids on a job a full disclosure of all specifications as to equipment, performance, and relevant operating practices before the bids are actually taken.

Importance of Knowing Terms of Contract in Advance

It frequently develops that the successful bidder never learns of the detailed provisions of the contract until after his bid has been accepted and the contract awarded. When the written contract is tendered to contractor for execution, he has the first real opportunity to determine the nature of the basic contract provisions.

A few operators are now following the practice of requiring the submission of bids on the basis of their own contract forms, which have been fully filled out and relate to the well to be drilled.

The author, W. C. Morris, is chairman of the Insurance Committee, American Association of Oilwell Drilling Contractors. He presented a paper on Contractual Liability at the 8th Annual Meeting of A.A.D.O.C. in Houston.

The Magnolia Petroleum Company assignment pictured here was used for the Louisiana test. View at left is of the double shoe staker in parallel, with mud flow divided over two line stream shoe stakers. In the right picture the mud tanks are covered, and, at extreme left, the double shoe top may be seen.