



Commercial Aggression on the UKCS

By
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The last ten years has seen the break-up of the traditional contracting pattern on the UKCS. The main reason for this was not the rise in oil prices but the decline of reserves and production. This led to the withdrawal of the larger oil majors, most of which have sold their interests too much smaller companies.

The new companies are not only smaller than those they replaced, but also tend to be more entrepreneurial. Some of them are not just in the business of exploration and production but also provide oilfield services of some kind. In other words they are both operators and contractors at the same time. And, to complete the picture, some of the contractors are acquiring interests in exploration and production projects. For example one of the rig owners is hiring out its rig at discounted rates in return for a share on the project, so the contract for the rig is accompanied by a farm-in agreement.

It was in this new world of contracting on the UKCS that I recently came across the most aggressive commercial behaviour that I personally have ever witnessed in the industry.

I was acting for one of the small operators who were drilling an appraisal well. There was a contingent plan to "FRACC" the well if the results justified it. For the uninitiated, fraccing involves using a specialised vessel or "FRACC Boat" to pressure the well until the casing at the bottom splits. This enables production from the well to begin immediately, and so avoid the need to drill a separate

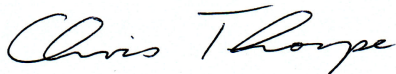
development well, bringing production of the field forward by 18 months and greatly improving the economics of the development.

The operator was in discussions with the owners of the only two FRACC boats available in the North Sea, but had no contract with either of them.

The well results were encouraging, so the operator went out to contract a FRACC boat, but one of them was busy in the Norwegian sector. The owner of the only available vessel not only demanded top dollar for use of the boat, but also produced a non-negotiable "farm-in agreement" which it required the company to sign – the very same day – before it would mobilise the vessel.

The farm-in agreement gave the contractor the option after completion of the well to take a 12.5% equity stake in the project, this is without payment and without bearing any part of the well costs.

Companies in the upstream have never been slow to exploit an advantageous bargaining position, but to demand a free slice of the other party's pie is becoming all too common and a step too far.



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