



# Contracts between Oil Operators and Service Companies: An Economic Analysis

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## Structure of the work

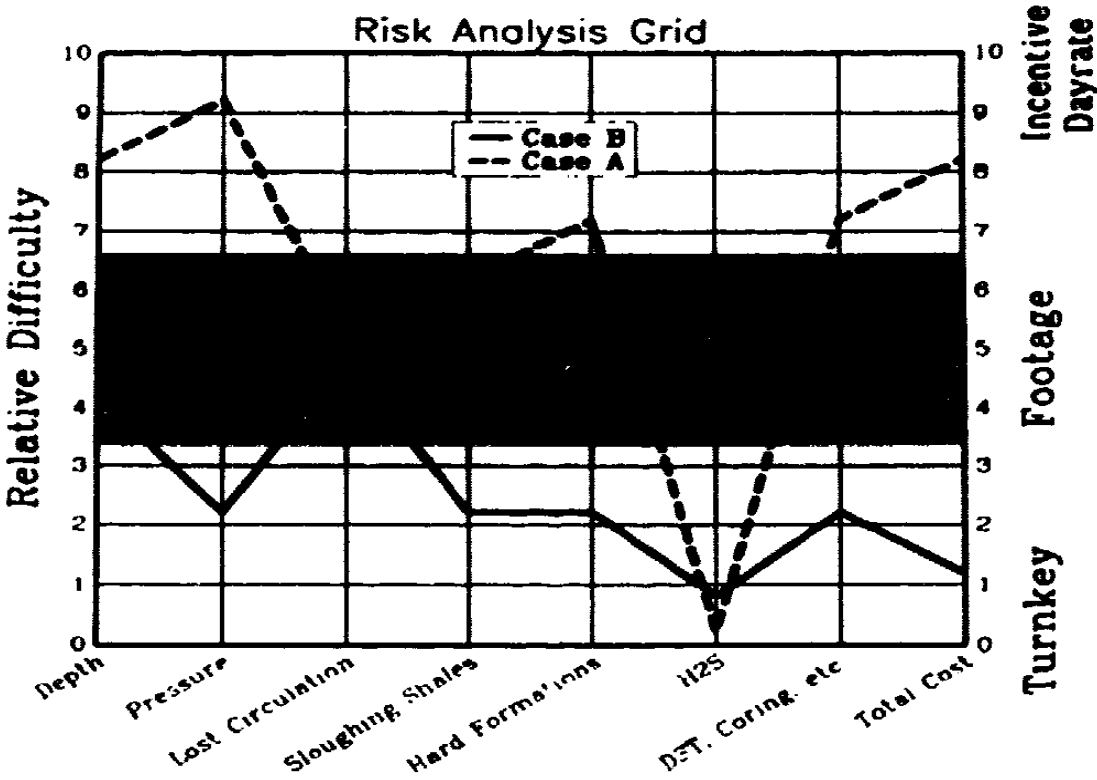
- 1. Clarifying the object
- 2. Distinguishing the contract types
- 3. Identifying the stochastic variables
- 4. Undertaking the analyses
- 5. Interpretation of the results
- 6. Conclusions and suggestions

## INTRODUCTION

Drilling is the most expensive and the most important part of the oil industry.

## Types of contract

- Day rate
- Turnkey (Lump Sum)
- Footage (Per Meter Drilled)



## METHODOLOGY

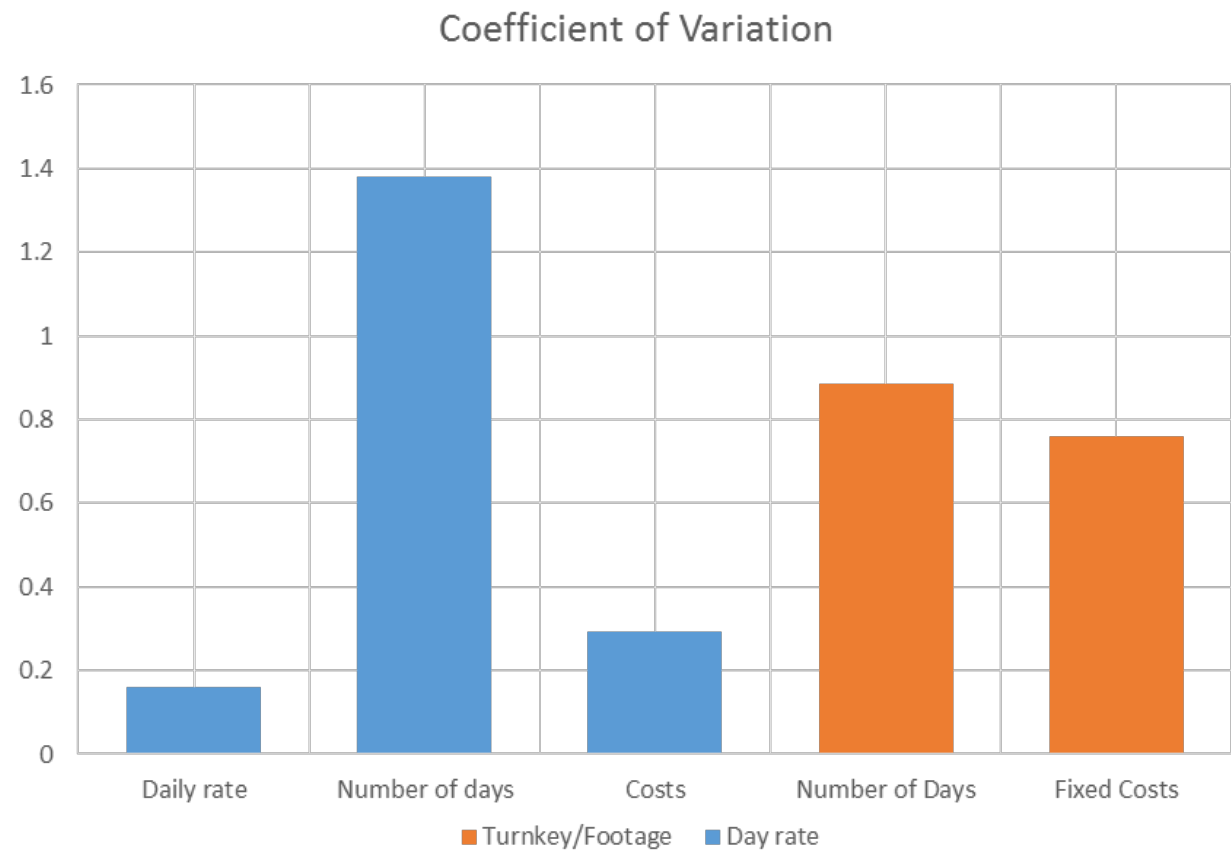
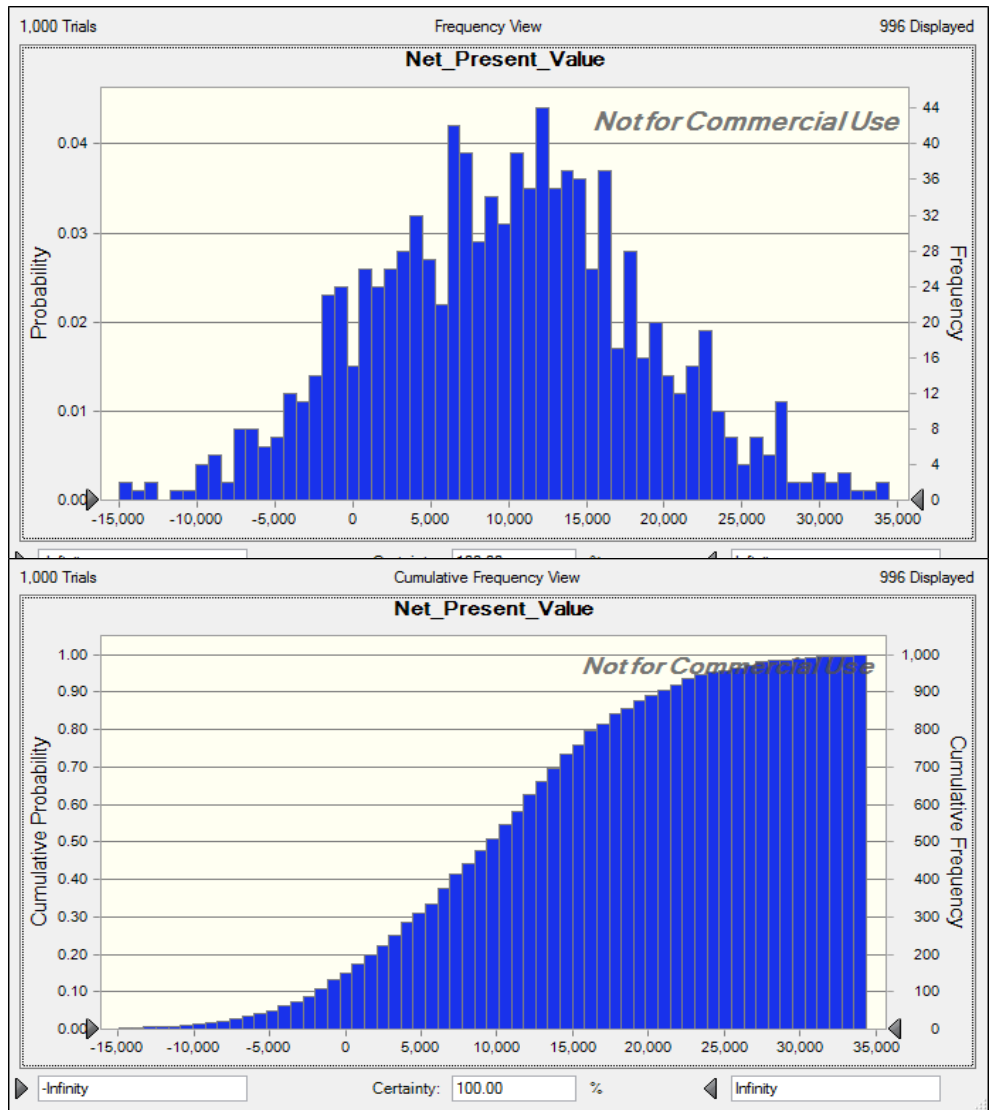
### Stochastic Variables

	Day rate contracts.			Lump Sum Contracts. Per meter drilled Contracts.	
	Number of days	Day rate (£)	Bonuses (£)	Number of days	Fixed Costs (£)
Mean	20	11305	21638	20	216380
Minimum	17	9609	18392	17	183923
Maximum	23	13001	24883	23	248837
St. deviation	2.3	250	935	2.3	10537

Mean	£10,120
Median	£10,119
Standard deviation	£8,975
Coefficient of variation	0.8868
Maximum	£40,984
Minimum	£-19,411

## RESULTS

Monte-Carlo Simulation provides with the information on the influence level of the stochastic variables on Contractor's NPV



## CONCLUSION

- The number of days is the factor most influencing potential financial performance of the project.
- Imply incentive turnkey contracts to provide both parties with better conditions
- Clarify risk allocation and improve bonus/penalty scheme