



J.C. (Jack) Magner

## FOCUS ON CONTRACTS

**Drilling  
Contractor**

### Who reads the contract?

A DRILLING contract is much like the income tax IRS Form 1040 -- nearly everyone is familiar with its basic purpose, but how many can truly comprehend the full scope of its terms, including benefits and pitfalls to each party?

Early drilling contracts were a combination of well specifications and price data, with general terms and conditions spelled out for the particular trade on that well.

Suing the Operator was suicidal for the Contractor; so, when disputes arose, they were "settled" by negotiations between the Operator and Contractor. The Operator usually prevailed! As a result, there is not too much case law of record to determine the results of such decisions!

Today we have both small and very large contractors, some being subsidiaries of larger diversified corporations. Now we also have footage, turnkey, incentive, daywork and other types of contracts not fully understood by the many segments of a company affected by the contract.

Add "hard times" to the equation and you have the ingredients for a litigious industry! Both insurance carriers and opposing attorneys are construing contracts to support their client's interest, with little or no concern as to the "intent" of the framers of the form or of the parties who signed! Of course, in law a document must speak for itself!

The best answer to this problem is to educate your own people on the rig and in the office as to the significant terms of the contract for their job, as well as a general familiarity with the balance of the agreement. One way is to have a pre-bid meeting and have the input of all concerned.

Some contracts have very special provisions negotiated for particular risks, etc. -- these should be well noted for future reference, warning or reliance! Pre-spud contract term meetings with the Operator and later with the Contractor's own personnel are well worth the time and cost.

One operator recently failed to read his contract and went on "Zero Repair Rate" after 2 hours, when the contract actually provided for "2 hours-Operating Rate," and thereafter the "Repair Rate" applies until the repair is complete.

If we are lucky enough to have a contract -- let's read it good!

#### 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 the IADC contract forms.

An active director of the International Association of Drilling Contractors 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 sets of legal documents came after long years of patient work and thorough revisions.

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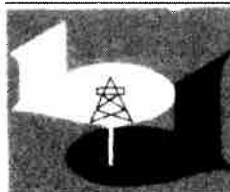
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