

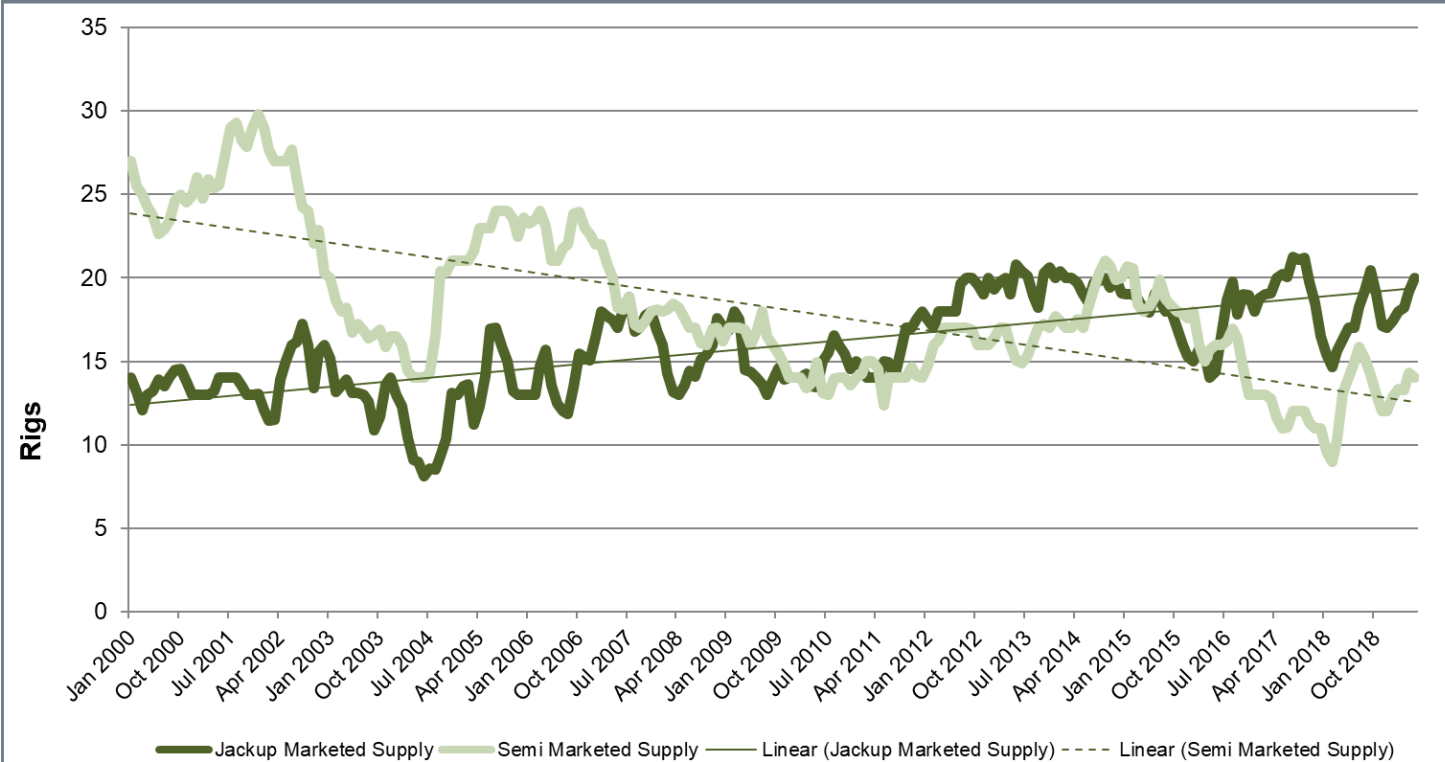
***Alliances: Wrong Model or Just Too Hard?  
Decom Offshore 2019***

*Darren Sutherland, Director – North Sea Region  
29<sup>th</sup> May 2019, Aberdeen, Scotland*



# Rig Market Dynamics

UK marketed fleet (semis and jackups): 2000-2019



Source: IHS Markit

© 2019 IHS Markit

## Supply

- ❑ Attrition of North Sea capable units likely to continue
- ❑ Standard HD Jack Up fleet diminishing
- ❑ Reactivation costs high

## Demand

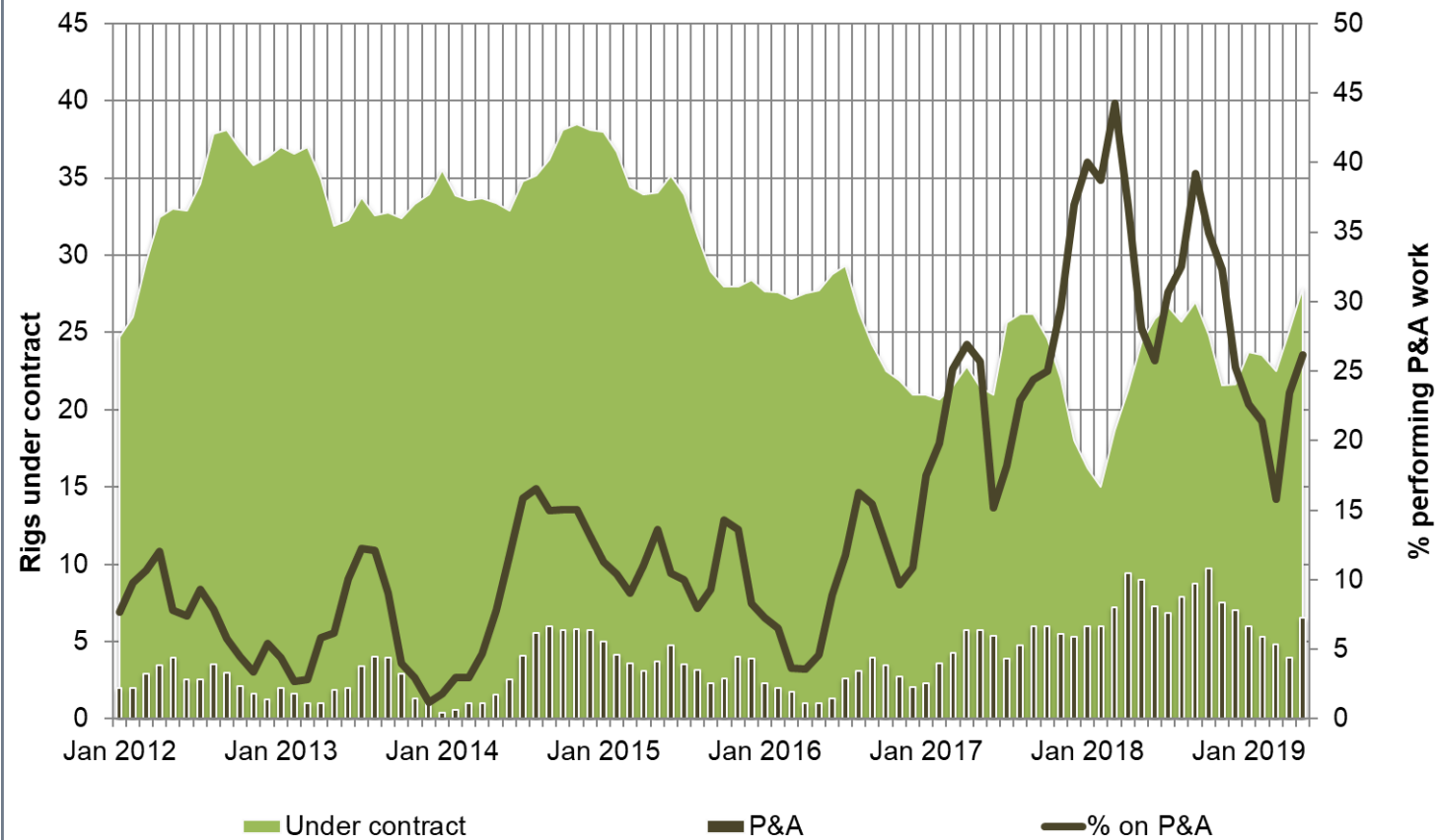
- ❑ Norwegian market rebounding quicker and stronger than UKCS
- ❑ Global demand growing
- ❑ Return to drilling activity rather than P&A

## Observations

- ❑ Day Rate rates are increasing, albeit slowly
- ❑ Options for SNS P&A may have to include HDHE Rigs

# Downturn Driven Rise in P&A Activity?

UK semis and jackups on P&A deployment: 2012-19



Source: IHS Markit

© 2019 IHS Markit

- Peak P&A activity coincides with rig market low point.
- Several fixtures in 2018 at breakeven rates.
- Clear seasonality trends.
- P&A Cost reductions

# Drilling Contract Models 101

## DAY RATE CONTRACT LOW RISK – MARKET DRIVEN REWARD

### Incentive

Steady, predictable revenue; Future work / Reputation.

### Key Success Factors

Good safety performance  
Strong Management Systems  
Minimal NPT

### Duration

Strong preference for continuous uninterrupted service

## ALLIANCE / INTEGRATED SERVICES CONTRACT MEDIUM RISK – MEDIUM REWARD

### Incentive

Market rate plus shared financial incentive.

### Key Success Factors

Trust in partners  
Cultural fit – Right attitude  
Clear alignment on objectives  
Alignment on share of risk  
Long term view

### Duration

Suited to campaigns or large multi-well programs

## TURNKEY CONTRACT HIGH RISK – HIGH REWARD

### Incentive

Potential for significant financial upside

### Key Success Factors

Strong supply chain buying power  
Key strategic service partners  
Detailed local knowledge  
Lean project execution

### Duration

Single & multi well campaigns

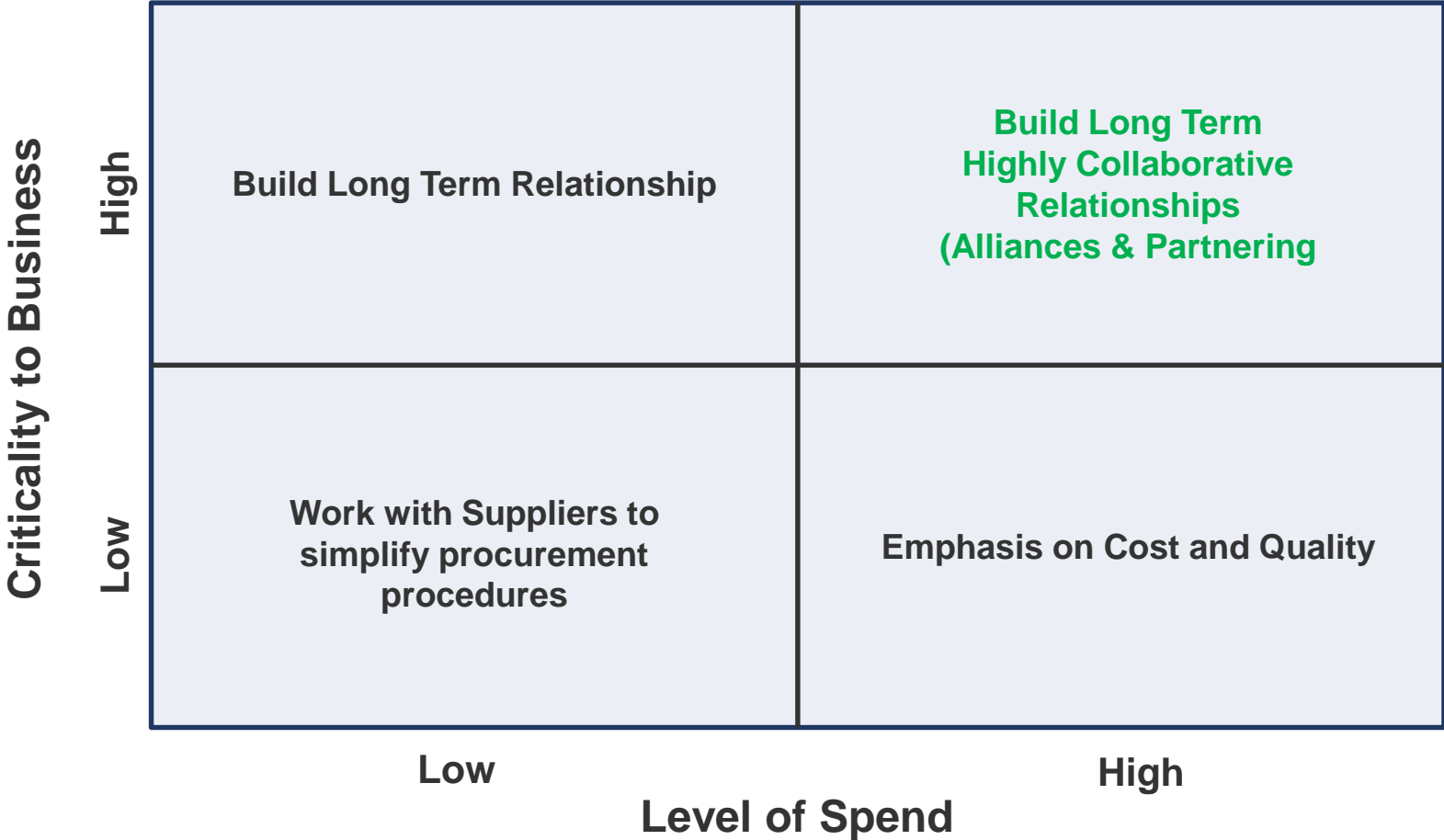


# What makes a successful Alliance?

---

- ❑ Trust – willingness to cede control and believe in partner company’s abilities
- ❑ Must deliver “Value” and offer Stability
- ❑ Time – Alliances don’t happen overnight
- ❑ Fair & achievable targets
- ❑ Partner choice – Culture trumps Price?
- ❑ Good Leadership – drives behaviours and attitudes

# Is Alliancing the Right Model for Decom?



Partnering and Alliances: Theory and Practice; Richard L. Green (Offshore Management Centre, The Robert Gordon University, Aberdeen) SPE-30378, Sep 1995

## Question!

---

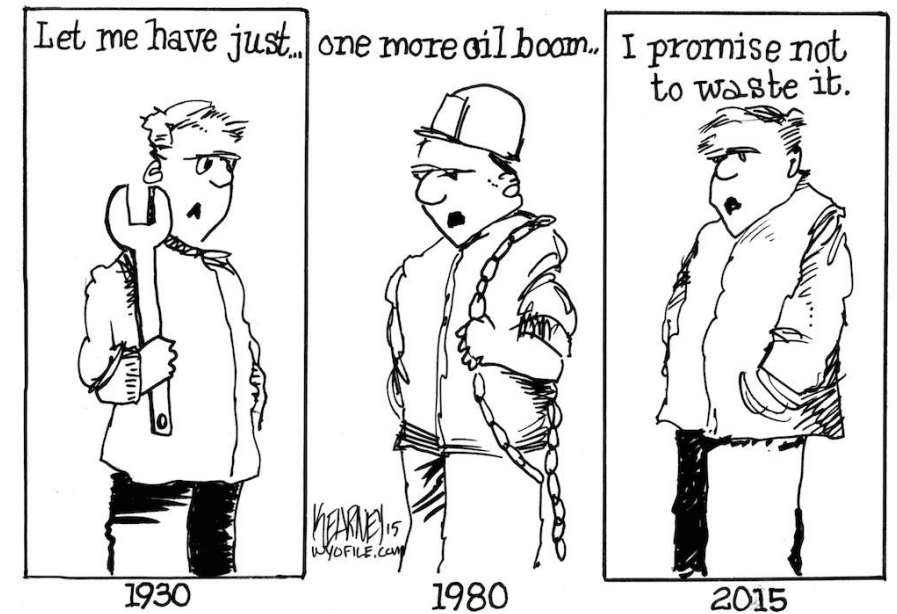
**Do you think the traditional alliance contract model is the right one for decom?**



## Why isn't it working?

---

- ❑ Insufficient long term P&A programs?
- ❑ Uncertainty and Cost Pressures – not conducive to collaboration
- ❑ Fear? – what happens if it goes wrong?
- ❑ Entry – Alliances involve start up costs
- ❑ Supply Chain behaviours – margin recovery
- ❑ Dichotomy: Supply Chain versus Operations?
- ❑ Just too hard?





## What will it take?

---

- Longer term programs – creation of “P&A Pool” ⇒ secure rigs ⇒ secure talent ⇒ innovate
- Strong, Visible Leadership – someone needs to set the pace
- Focus on value creation – increase the size of the pie!
- Review the contracting model
- Time is of the essence
- Revolution rather than evolution?