



Accuracy Is The Best Policy

TODAY'S OIL RESERVES WOULD BE UNREACHABLE WITHOUT THE DRILLING TECHNOLOGY DEVELOPED IN RECENT YEARS. BUT INNOVATION BRINGS RISKS. WHICH IS WHERE WE COME IN.



BY MARK THOMPSON
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If drilling contractors held an Olympics, its motto would be 'bolder, deeper, faster'. While there may be no podium or medals, for those involved the stakes are higher. As our clients compete with ever greater challenges, success requires an athlete's self-belief.

But confidence can be shaken. A drilling contractor executive explained that his company was building a prototype deepwater drilling rig that would push the boundaries once again. Costing in the region of \$800 million, the new concept should have been cause for shareholder excitement. At the time, though, financial analysts were pounding the drilling contractor over their track record of rig delivery. Their stock price had tumbled and the board had lost confidence in its own team to meet the delivery of the new rig.

Drilling projects measure their horizons in months and years. And the uncertainty of the eventual outcome makes shareholders—and the markets themselves—uneasy.

If this rig was not ready when they said, our client stood to lose \$500,000 for each day it was late, which in turn would increase the probability of further erosion of their stock value. At the time, a hit of just three dollars per share would have devalued the organization by approximately \$1 billion.

The situation was grave. The executive team's tolerance for risk had been surpassed. They had lost confidence that the rig would be completed within the scheduled estimate of 10 months.

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The executive team needed credible and independent confirmation of when the rig would be drill ready. We immediately dispatched a team to investigate the project. Drawing on our unique combination of engineering, project management and drilling rig knowledge, we rapidly developed a delivery forecast on a sliding scale.

With our tried-and-tested qualitative and quantitative risk-profiling and analysis techniques, we pinpointed a 'most probable' drill-ready date that was four months later than our client was hoping.

A potential earnings impact of \$60 million was not the news the CEO of our client wanted to hear. However, the rigour of our approach made it clear the forecast was not pessimistic, but pragmatic. The risk profile and completion status of the project meant that the 'drill ready' date could not be recovered. But knowing where they stood brought stability back to our client, and its shareholders. A little over 14 months after our analysis, the rig was accepted as 'drill ready'—right in line with our forecast.

So what?

Confidence was restored. Acting on our findings, our client made provisions for the delay costs, adjusting its earnings forecast to prevent any further stock value erosion attributable to the prototype project. Effective management reduced the severity of the situation and our client began to rebuild its tarnished 'drill-ready' reputation.