

From: Young, Chris
Sent: Wed Sep 01 12:20:24 2004
To: Jackson, Curtis W (NAX)
Cc: Rhoads, Jerry (Randy); Westall, Karen; Keeton, John; Woelfel, Steve; Skelton, Jake; Williams, Jennifer (Clover)
Subject: RE: Conversion of a VBR to a Test Ram on the Horizon
Importance: Normal

Thanks. The 8th would be better for me. We have a bid to BP due on the 7th that will be occupying my time up to then. I look forward to meeting with you.

Regards,
Chris

-----Original Message-----

From: Jackson, Curtis W (NAX) [mailto:jacksocw@bp.com]
Sent: Wednesday, September 01, 2004 5:27 AM
To: Young, Chris
Cc: Rhoads, Jerry (Randy); Westall, Karen; Keeton, John; Woelfel, Steve; Skelton, Jake; Williams, Jennifer (Clover)
Subject: RE: Conversion of a VBR to a Test Ram on the Horizon

Again, we need to sit, face to face and discuss.

I am open the afternoon of the 7th and the 8th. Jennifer, can you please set up a meeting with Chris Young.

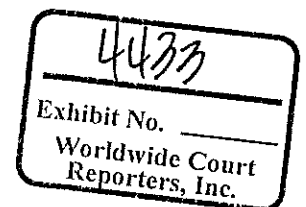
-----Original Message-----

From: Young, Chris [mailto:CYoung@houston.deepwater.com]
Sent: Tuesday, August 31, 2004 11:41 AM
To: Jackson, Curtis W (NAX)
Cc: Rhoads, Jerry (Randy); Westall, Karen; Keeton, John; Woelfel, Steve
Subject: Conversion of a VBR to a Test Ram on the Horizon

Curtis:

I visited with Randy briefly yesterday and he told me that you were not overly enamored with our proposal! Anyway, I am in the midst of getting out a bid for a two year contract for a deep water unit for ChevronTexaco and thought I would try again to make our case in writing before we talked.

From what I understand, the cost to change the VBR to a test ram is relatively small (~\$110,000 not counting rig time - and it probably won't require much if any rig time). The tangible savings to BP would be 2 round trips from 9600' every 14 days that we test. Tripping at 2,600' per hour, we would save around 15 hours every two weeks or 128 hours (~5 days) over a 120 day well. If BP's savings were 5 days over the 9,600' water depth well and BP's variable spread cost including the rig were \$300,000 per day, BP's savings would be ~\$1,500,000 - \$110,000 = \$1,390,000 for the well. If we had to pull the BOP because one of the two remaining VBRs didn't test during the well it might take 6 or 7



days. Assuming 7 days and the \$300K spread cost, it would cost ~\$2.1 million. Therefore, for BP to be theoretically indifferent, the probability of pulling the BOP for a negative VBR test would have to be less than 66%. It seems to me that the probability is far less than that. Transocean would prefer to leave the Horizon's BOP as-is to maintain our redundancy and not subject the company to any additional risk of downtime for a BOP pull. However, we are happy for BP to make the change if we are "kept whole" and not subjected to any added risk of a BOP pull. It seems to me that BP ought to make the decision to convert the VBR based on a cost benefit analysis for BP.

We would be willing to share the risk of a BOP pull if we could share in the savings on the same basis. For example, if the test ram saved 5 days on the deepwater well and your spread cost were \$300K per day, the savings would be \$1,500K - \$110K = \$1,390K. Assuming we split the \$1,390,000 our share would be \$695,000. If we had to pull the stack, we would share the assumed 7 day - \$2.1 million spread cost so our cost would be \$1,050,000. Therefore, if the chance of a VBR not testing were less than 66%, we would both be theoretically be indifferent. We would have to agree on how the savings were calculated, the relevant variable spread costs, etc. but we ought to be able to do that. What do you think?

Anyway, I'll be busy until Wednesday afternoon and will call you after that.

Thanks,

Chris

Transocean Holdings, Inc.

Tel: 832 587 8506

Cell: 713 248 8862

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-----Original Message-----

From: Jackson, Curtis W (NAX) [mailto:jacksocw@bp.com]

Sent: Saturday, August 28, 2004 6:53 AM

To: Young, Chris

Cc: Rhoads, Jerry (Randy); Westall, Karen

Subject: RE: Conversion of a VBR to a Test Ram on the Horizon

Chris, not in agreement. I will have to review the contract, however the stand by rate and day rate are the same. This agreement has bp paying for the work and equipment and taking on all the liability. I would like to discuss the possibility of sharing the stack pulls, if there is a failure of the rams. I am outmost of next week, but will to discuss by phone.

-----Original Message-----

From: Young, Chris [mailto:CYoung@houston.deepwater.com]

Sent: Friday, August 27, 2004 4:42 PM

To: Jackson, Curtis W (NAX)

Cc: Rhoads, Jerry (Randy)

Subject: Conversion of a VBR to a Test Ram on the Horizon

Curtis:

John Keeton asked me to call you to talk about the test ram on the Horizon. Since it is late on Friday afternoon, I thought I would e-mail our proposed language today and call you to talk about it next week. Therefore, our revised draft of a letter agreement is attached for your review.

Our rationale for our position is in the letter. Basically we designed the Horizon's BOP for redundancy in deep water. Since the MMS requires two (2) VBRs, we designed the BOP with three so that if one didn't test for any reason, we would not have to pull the BOP and disrupt your operations (or have to pay for rig time to pull and re-run the BOP). We know that converting the VBR to a test ram will save BP time and money on routine BOP testing. However, it reduces BOP redundancy and exposes us to a BOP pull if one VBR doesn't test. While negative VBR tests are rare, they do happen. Anyway, we want BP to keep us whole by paying for rig time at the standby rate IF we are required to pull the BOP because one VBR failed to test. The trade-off for BP seems fair. BP will realize definite quantifiable savings on routine BOP tests while incurring the very remote possibility that BP may have to pay for a BOP pull at the standby rate if a VBR doesn't test.

I will call you next week to discuss but I wanted to bring you up to speed on what we were thinking.

Regards,

Chris Young

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Tel: 832 587 8506

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