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WASHINGTON, D.C. 20548

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LOGISTICS AND COMMUNICATIONS DIVISION

RELEASED

MAY 30 1974

B-66927

The Honorable Mike Gravel  
United States Senate

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R Dear Senator Gravel:

On March 25, 1974, you requested that we investigate why the Office of Naval Petroleum and Oil Shale Reserves (ONPR) awarded a contract to Pacific Architects and Engineers, Incorporated (PAE), to drill two wells in Naval Petroleum Reserve No. 4 in Alaska. You questioned the award because it was your understanding that the firm had no prior drilling experience. We have inquired into the award of this contract and have discussed it with officials of ONPR.

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The cost-plus-fixed-fee contract, NOD-10056, estimated at \$904,000, was awarded to PAE on January 31, 1974, for drilling gas wells numbers 11 and 12 in Naval Petroleum Reserve No. 4, if thawing conditions seemed likely to permit satisfactory completion by April 30, 1974.

The solicitation of proposals was published in Alaskan newspapers December 3 through 7, 1973. The request for proposals was mailed on December 10, 1973, to 17 prospective contractors. The deadline for submitting proposals was January 7, 1974. The proposals were to include plans; estimates of mobilization costs, wage rates, and man-hours; costs of contractor-furnished equipment; and the amount of the expected fee.

Only two firms, PAE and Nabors Alaska Drilling, Inc., submitted proposals. Nabors' proposal was determined non-responsive because it did not include:

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- A plan for providing logistic support.
- A proposal for providing required heavy equipment.
- An estimate of total hours per labor category.

Inclusion of these items was mandatory under the request for proposals. Nabors' response acknowledged the deficiencies in data on equipment and logistic support. Nabors had no facilities in the Point Barrow area and could not confirm the availability of Navy-owned equipment and camp facilities. ONPR communicated with Nabors on January 11, 1974, and they agreed that further negotiations probably would not be productive. In addition, the labor rates proposed by Nabors exceeded those proposed by PAE in the various categories by amounts ranging from \$0.34 to \$1.38 an hour. The fixed fee proposed by Nabors for the wells exceeded that proposed by PAE by more than \$27,000.

Drilling operations were carried out under the direct supervision and control of the Navy. The Government provided the drilling rig, oilfield tubular goods, mud, cement, and chemicals. PAE had to arrange logistic support, including furnishing certain construction equipment and vehicles, subsistence and quarters, and services consistent with purchase and delivery at Point Barrow of materials and supplies other than those furnished by the Government.

ONPR officials advised us that both wells were completed by May 4 and that the contractor would do certain cleanup operations before completion of the contract in June. PAE's performance under this contract, according to ONPR officials, is judged very good.

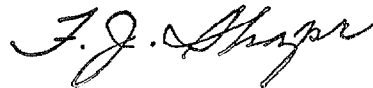
PAE has had some previous drilling experience. It drilled well number 10 in the South Barrow field in 1973 under a modification to an operation and maintenance contract which PAE has with the Office of Naval Research for

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operation of the Navy Research Site at Point Barrow.  
This contract expires in July of this year.

We do not plan to distribute this report further  
unless you agree or publicly announce its contents.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "F. J. Shafer".

F. J. Shafer  
Director