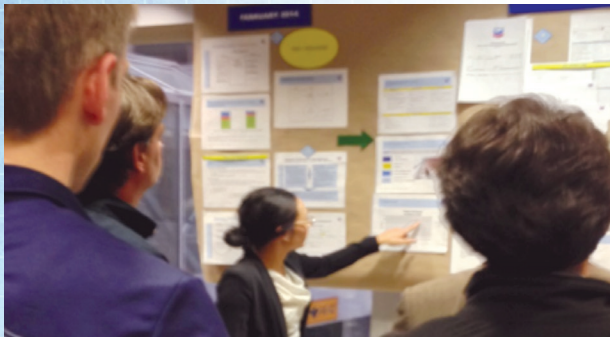


# Cross-Functional Team Creates the System and Processes to Ensure Return on Investment in Unconventional Shale Play



A rapidly growing business unit of an oil and gas major was about to move their Western Canadian tight gas holdings into the important appraisal phase which would determine whether or not the asset was economically viable to invest in for the long term. This was a new asset, a new team and a new leader with the challenge of proving they could

plan, drill, complete and put on production these appraisal wells at the right costs and the right timeline. With little structure in place other than some high level goals and objectives, the project lacked an effective plan and many other critical management processes.

## Improvement Goal/Objective:

The lack of cost structure and control processes could not ensure the organization's success in effectively controlling costs and ensure that their asset would provide them with the desired payback. The organization called upon a project team including people from Accounting, Supply Chain, Drilling & Completions and Facilities to create a robust cost breakdown structure, a single process for budgeting, tracking, forecasting/reconciling expenditure, and to work with IT to ensure it was supported by an integrated cost system. These processes and tools would provide the organization with the ability to manage their costs as well as enable the critical behavior of data- (cost-) based decision-making.

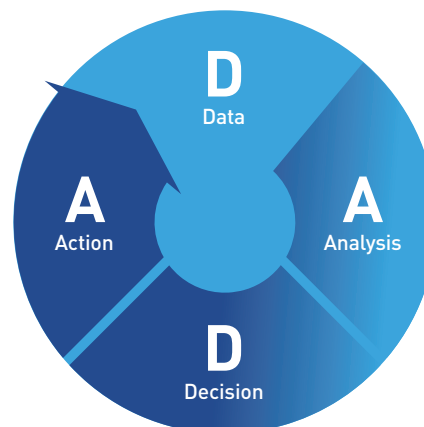
## Managing Using Data (DADA)

Clear and accurate data of the correct frequency and measures that reflects what is really happening

Follow-up and challenge closes the loop

Clear identification of the things that need to be done to make the decision "stick" (with clear responsibilities and due dates) that will change the result

Working together we can agree the way forward



Properly formatted reports give us access to the facts

Presentation and **studying** of data in such a way that we can see and agree on **conclusions** of what the data tells us

Asking the right questions allows us to "dig down"

Real **problem solving** and teamwork which results in a clear understanding and decisions



# Cross-Functional Team Creates the System and Processes to Ensure Desired Return on Investment in Unconventional Shale Play

## Solution:

To enhance the organization’s ability to control costs the project team had to address two critical opportunities, which would lead them to a successful implementation. These were:

- 1) Develop formal comprehensive cost control methodologies that took into consideration Approval for Expenditure (AFE) processes from “*cradle to grave*”, and;
- 2) Design and implement a management system that reinforced these processes as well as the desired behavior of cost-based decision making.

The team designed and implemented formal cost control methodologies that included new work processes for budgeting, tracking and forecasting/reconciling their costs. Cross-functional workshops were held to develop the process maps and RACI charts. While developing these work processes the team identified that the current general ledger (GL) codes were cumbersome and not aligned between SAP and WellView. By rationalizing and aligning the GL codes and issuing a GL playbook to the field engineers, the organization saw improvements in accuracy and timeliness of reconciling period costs and identifying true well cost.

Secondly, an Integrated Cost Management System was developed with two critical aspects. First, was the ability to generate accurate S-curves and second, was an effective meeting in which to review them. The S-curves displayed the budgeted,

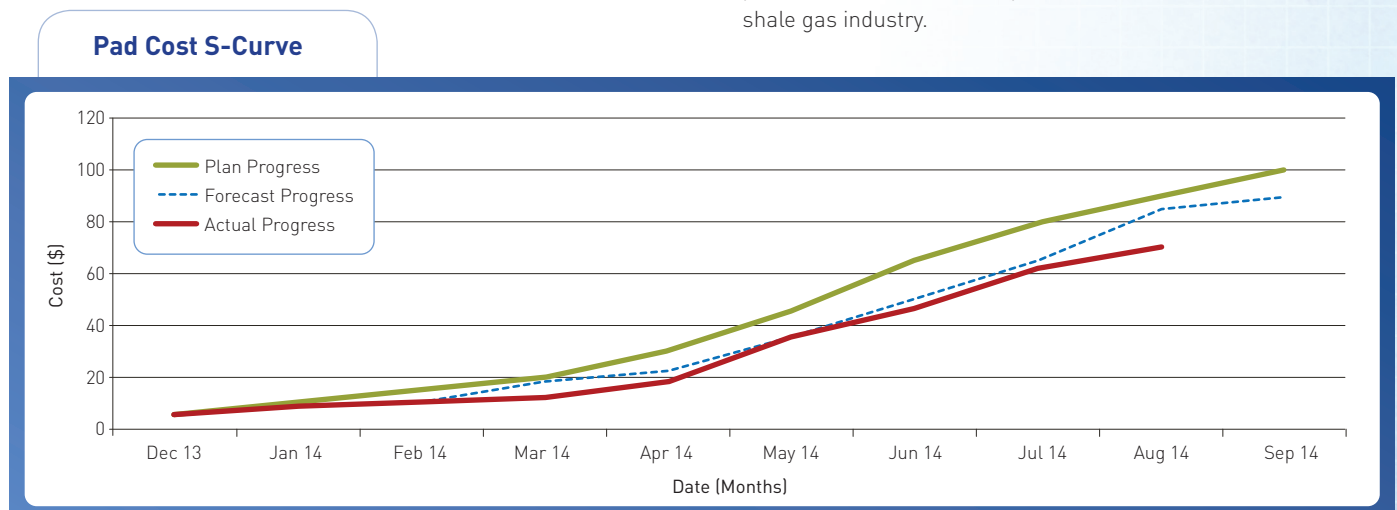
incurred and actual costs as well the budget forecast over the schedule period for each function. The system allowed for drill-down analytics where variances appeared. The benefit of this reporting concept to the organization was the transparency created to actively identify cost opportunities and ensure functional accountability for action and resolution. The review meeting allowed managers to recognize the positive variances and challenge the negative ones. These meetings also provided the forum for meaningful discussions on forecasts, which started to change people’s behaviors with respect to how and when they made decisions that impact well costs.

The ability to quickly identify vendor cost variances and abnormalities is another benefit to the timely and accurate reporting that could then be easily investigated and resolved.

As with all change journeys, the team faced many hurdles on their path to excellence. One of the major challenges was to align the functional groups, such as Drilling & Completions and Facilities, to a singular process and get their agreement on best practices for inputting, tracking and forecasting costs. Another key challenge was to get people to stop making decisions based on “instinct” and start to use the cost system to help make more informed decisions.

## Results:

Through creating these processes, clearly defining roles and accountabilities for cost and building a robust cost control system the organization found themselves on the path to first quartile performance in well development costs in the Western Canadian shale gas industry.



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