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Getting Deepwater Development Right: Strategies for the Non-Operator

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Abstract

Deepwater developments continue to be large, complex projects, with new technology, significant financial exposure, and a mixed industry track record. Shell was one of the early pioneers in deepwater, almost exclusively as operator. Now, most majors and many large independents have operator roles in deepwater. Shell has gained recent experience in several large deepwater projects worldwide in the role of non-operator. The lessons learned and strategies developed as a non-operator to increase project value are described.

Introduction

The initial euphoria of a deepwater discovery can quickly turn to panic for a non-operator partner when they recognize their large financial exposure is coupled with the difficulty of directly influencing the project outcome. Questions occur repeatedly throughout the project lifecycle, such as: what is most important? Where should I dedicate my time and scarce resources? How can I add value to the project? How can I avoid non-productive conflict between operator and partners? These questions are usually dealt with reactively or haphazardly, leading to a negative impact on the project. The approach outlined in this paper provides a simple structure to help guide a partnership toward making the most of each companies' strengths, smoothing the decision making process, and minimize value destroying disagreements.

Many operators view partners as a hindrance and bother, although in practice most operators can benefit from the expertise and participation of the non-operator. The same strategy that enables effective participation by a non-operator partner will conversely allow the operator to minimize the inefficiencies and maximize the value the other partners can bring to the project.

Overview

The strategy for a non-operator to increase project value consists of six main steps:

1. Understand and align (to extent possible) the corporate business drivers that underpin the day-to-day behaviors of the project teams.
2. Reach agreement on project objectives, including stakeholder relations and HSE principles.
3. Clearly understand your rights under the Joint Venture Operating Agreement (JOA).
4. Identify the key value contributors and risks in the project.
5. Objectively assess the strengths and weaknesses of the operator and other partners.
6. Focus your project participation on the high value and/or high-risk areas where you have a strength or the operator has a weakness (the critical activities).
7. Agree with the operator on how to manage formal technical reviews (or gates) to minimize duplication and timing disconnects.

The main characteristics of the strategy, such as are early understanding and alignment of business objectives, assessment of project risks and company strengths/weaknesses, are not new and often used when relating to contractors, host governments, or customers, and in project management. These same techniques can and should be used when upstream companies work with each other in Joint Ventures. Detail of how these six steps can help the non-operator enhance project value is provided below.

Corporate Business Drivers

Current corporate business drivers have a huge impact on company perspective, decision-making, and therefore the JV relationship. Making visible the key drivers and gaining agreement or at least understanding early at high management levels will alleviate innumerable value destroying behaviors later in the project. For example, the operator of a recent project had the priorities of (1) HSE, (2) Schedule, and (3) Cost. The partner had priorities of (1) HSE, (2) Cost, and (3) Schedule. In this example, the seemingly small difference in the priority of cost and schedule led to most decisions being made differently, resulting in conflict and inefficiency. Although no agreement was ultimately reached on these project priorities, sharing the underlying decision drivers

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allowed much improved understanding and opportunities for compromise.

Project Objectives

Similar to corporate drivers, clear project objectives contribute to smooth working relationships and efficient interfacing at all levels in the partnership. Reaching agreement on the philosophy and principles around the cost, schedule, operability, HSE, contracting strategy, new technology, stakeholder relations, and local content early in the project lifecycle will eliminate much debate later when differences can impact value more significantly.

Know Your Joint Venture Contract

It may seem obvious, but understanding the rights of the non-operator provides you with the ability to negotiate the more important decisions affecting the project. Unfortunately, many times this leverage is used to gain one-sided advantage at the perceived expense of the other party. But when used with the intent of creating value for the overall project, in which all parties benefit, it is a powerful tool to bring all perspectives to the table and create solutions and agreements that are usually better than any one company could provide alone.

Commercial negotiations between parties in partnerships are often roadblocks to cooperation on the project itself. It is best, if possible, to resolve all major commercial issues early, preferably prior to setting the design basis for the project. Otherwise, late changes (or threat of changes), obstructive behavior, and other difficulties will probably impact the project itself.

Assess Risks and Value Drivers of Project

Every project has a unique profile of how value is generated, and what the particular risks to this value are. The first step in focusing your effort as a non-operator is to take a comprehensive look at this value and risk profile. Typically, the operator does this as a normal part of the project. It is important that all aspects of the project are considered, not just the technical issues. Organizational, stakeholder relations, and commercial issues are a few areas that may have more value impact and risk than many technical items.

Assess 'Competencies' of the Operator and Non-Operator

What are the competencies of the operator and non-operator in dealing with the value and risk profile of this particular project? This is a tough question to answer objectively. A useful way to improve objectivity is to consider only track record in estimating competencies. So instead of debating perceptions of ability (we all believe we do everything well, don't we?), simply determine if a company or individual has done that task or work before; and if so, what was the result? If there is no experience, or the previous experience had poor results, then one should behave as if the competency is lacking. Honesty at this step is clearly critical to success. It is also important to note that staff shortages in the operating

company may result in your project lacking competencies that the operator may have from an overall perspective.

Develop a Critical Activities List

Given the value and risk profile of the project and the particular competencies of operator and non-operator, the non-operator is ready to decide those critical activities where participation will be most fruitful. Simply stated, a critical activity is a high value or high risk area where the operator lacks competency, or the non-operator feels an independent view, audit, or contribution are valuable or needed. Once defined, the critical activities list should drive the focus, work, and staffing of the non-operator. Keep the list as short as possible, and resist the temptation to grow in the belief that everything is critical. A critical activity itself should be as specific as possible. It should describe the particular value or risk to be added or mitigated. It should detail specifically whether the interaction will be through helping to do the work, reviewing a report, attending a review meeting, or doing independent verification. Clear delineation of the responsible parties (in both companies) and deadlines are also needed. The operator clearly needs to agree to the specific interaction and review plans associated with all critical items. Therefore, obtaining their understanding and agreement to actively support the use and integration of the list into the normal project management process is important.

Joint (Integrated) Teams versus Separate (Shadow) Teams

Once a non-operator decides to devote staff resources to a critical activity, a choice must be made whether to add staff to the operator's 'integrated' project team, or to maintain an independent 'shadow' team of non-operator staff only. (Note: this assumes that the option for an integrated project team exists).

There is no simple answer to this choice, and it varies by the activity. The decision should be driven by several considerations. First, the cost of a shadow team is large, and they often hinder rather than aid alignment between companies, so their use should be limited to items of very high value and risk. Second, if an item has a large subjective component, then a shadow team can often add significant value through an independent assessment. For example, Shell often uses shadow teams to perform critical subsurface and resource evaluation work. This is driven by the high value and risk of this project component, coupled with the subjective nature of the technical work, which creates the opportunity to add significant value through an independent assessment. Third, the application of a shadow team can result from the operator refusing to consider a recommendation that the non-operator feels is important. In this case, the only way to break the stalemate may be by detailing the issue with additional independent work, which then can be used to convince the operator or partnership of the recommendation. In any case, when using a shadow team it is important to make the operator and partnership aware of the importance of the issue, the fact

that additional work is ongoing, and this new work will need to be assimilated when complete.

Formal Review or Gate Process

Most companies today have a formal review process with several “gates” through which a project must pass in order to obtain approval and funding to proceed to the next phase of the development. In general these gates are similar between companies, but in detail the actual requirements and timing of the gates can be quite different. Ideally, the partnership should agree in detail to one common review process that meets all the needs of the individual companies. At a minimum, the partners should understand each other’s requirements in detail and strive for single or common reviews to the extent possible. This will reduce the time and effort needed to clear the gates and avoid misunderstanding later on with respect to the information and level of detail required by each partner to gain approvals.

Decision Making Process

The procedure for making major decisions is usually described in the Joint Venture Operating Agreement through a notification and voting procedure. However, there are many more lower level (but still important) decisions that are made continuously by the operator. The critical activities process described above should capture those lower level decisions the non-operator wants to provide input on, along with how that input will be provided.

Informal Influencing

Everyone recognizes that there is a right and wrong way to influence decisions in their own company. Similarly, there are effective ways and ineffective ways for a non-operator to influence the operator. Some companies respond best to influence at the technical level, others prefer management discussions, while some respond best to dialogue at all levels. Understanding the style of your particular operator can improve the contribution a non-operator can make to the partnership.

Decision Points

Most projects flow in stages: appraisal drilling, concept selection, concept definition, detailed design, fabricate, install, and produce. Trying to apply all these techniques to the full lifecycle at one time can be a daunting and difficult task. Realistically, if a non-operator can focus and use the above tools thoroughly for the current stage, then the subsequent stages can be dealt with as they are begun.

Summary

The global deepwater continues to challenge the industry and pushes our capabilities to the limit. Successfully tapping into the expertise that each company brings to a partnership while avoiding value-reducing conflicts is mandatory to achieving improved industry success. The checklist of tools outlined in this paper takes significant effort to implement carefully, but our experience suggests that the effort is worthwhile in terms of improved project value.