



Best Practices for Cost Control and Capital Management

While other industries have adopted software technology to automate and optimize business processes, the oil and gas industry is still decades behind. This guide reveals how oil and gas companies are using technology to eliminate waste, identify areas of efficiencies and undertake best practices to better control costs and manage capital expenditures.

In our current economic climate, there is no better time to evaluate your end-to-end business processes and implement new technologies to help oil and gas companies work smarter, not harder. Automate and optimize now to maximize time, productivity and manage your capital more efficiently.

Today's Situation

Managing capital expenditures and budgeting AFEs is only half the battle to controlling costs. It's no longer a case where companies are setting capital budgets and have AFEs that they're budgeting for that particular year, they now need to be able to forecast their costs and future spend on projects. We no longer have margins for overages on budget. Forecasting AFE spending is the key to surviving the downturn and managing cash flow. But, many companies don't have the best practices and appropriate technologies in place to manage capital expenditures and forecast costs more accurately.





Challenges

Some of the challenges companies face when trying to establish cost control and capital management best practices are:

- Capturing field costs and insuring data entry is accurate, detailed and updated weekly. A lot of companies still aren't tracking their field cost data on a daily basis; or down to the line item. So they're not able to capture a forecast and track their year to date spending against their budget.
- AFE spend must be monitored monthly. It's no longer a matter of checking end of the year, inception-to-date costs.
- Companies don't have the tools or processes in place to allow AFE budget managers to monitor current spending and to forecast future spending from initial budget through project completion.
- No process for project completion and closing AFEs, which means they are not able to put costs against the AFE, which leads to a project being over budget.
- Not all CapEx projects are captured in the forecast. They might be capturing drilling and completion, for instance, but they might not be capturing their G&A AFEs or workovers, etc. It's important to capture all capital expenditures in the tool they use so they can forecast their expenditures and future spending.
- No tools or processes in place to reforecast based on level of completion, scheduled updates, or cost adjustments.
- No process to ensure proper accruals are being made each month, enabling more accurate forecasting of remaining months.

The Solution

The first step to solving these challenges is to clearly define ownership of AFE forecasting, budgeting costs, and managing capital projects. This is probably three different people in a company, or different business units, so it's important to define who owns these areas and make sure they're using one application that lets them do their part while allowing all individuals to contribute.

To do this, you need to adopt one solution for a centralized approach to AFE capital tracking, monitoring and forecasting. Have one solution that lets you budget your AFEs, budget your capital expenditures at the well, asset, and corporation level, and forecast future spending.

This solution should integrate with other key systems for real-time spend analysis. It's not enough to just have an AFE automated workflow tool; if you're not integrating with accounting systems or well data management systems, you don't have access to your real-time spending. To discover if you are currently

in need of such a solution, ask yourself the following questions. Can you:

- ◊ Monitor and forecast your spending at the well level?
- ◊ Monitor AFE spend monthly?
- ◊ Easily update monthly project forecasts?

Inception to Date Costs

The ability to look at your overall gross estimate versus actual versus field costs is imperative to be able to manage your capital expenditures at the well level and roll up that information to the corporate level. With Quorum's data intelligence, you'll be able to strengthen relationships with investors, joint venture partners, or working interest partners.



Quorum Software powers growth and profitability for energy businesses by connecting people, workflows, and systems with decision-ready data.

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