

OIL & GAS

Challenging Environment Ahead for Shale Operators

The business and operating landscape for oil and gas companies have presented many challenges over the past five years. These challenges significantly ramped up during 2020, thanks mainly to the Covid pandemic—challenges most keenly felt by the smaller Independents especially and Shale Operators generally. Shale operators generally. Although we have seen oil prices recover and stabilize in the \$'70s, Shale operators are by no means out of the woods.



Pressure continues to ramp up given the current levels of uncertainty in today's business environment, with the emergence of many Covid variants, more active stakeholders and the increasingly vociferous environmental lobby.

Investors are demanding increased efficiencies across entire operational and business value chains and the need to deliver vastly improved lifting costs on current producing assets. Over the last few years, many of these organizations have been aggressively challenging themselves to increase throughput by reducing well and equipment downtime, along with better management of reservoirs. They improved operability while simultaneously lowering direct lease operating costs.

Operators also see increasing demands for a more proactive and progressive commitment to environmental custodianship and guardianship, essentially challenged to deliver cleaner energy with lower emissions, more efficiently. There is little doubt that the industry and shale operators generally have worked hard, in many cases been forced to work hard, to manage operations and lower operating costs. Many shale producers rightly feel that they have made considerable strides in lowering costs. Still, given current capital constraints and oilfield inflation likely gathering pace, there will be a need to do more. Thankfully, there is still considerable potential for improvements especially given the opportunities to digitalize many parts of the operational value chain. Digitizing critical aspects of the value chain can enable organizations to fundamentally change organizational and operational frameworks previously seen as constraints. There is still significant potential for many independent producers to deliver additional cost and production optimization benefits rapidly.

As we have previously stated, there are many reasons why shale operators must continue to focus on cost and throughput optimization. With record numbers of operators filing for bankruptcy in 2020 and record levels of bankruptcy debt in the sector, it is not surprising that capital expenditure has been curtailed sharply.

This is not a surprise for people in the industry, given that shale operators have had little choice but to preserve cash. However, purse strings will have to loosen as growth in global economies forces operators to capitalize on increasing consumer demand and likely increased stability in oil prices. Driving operators to increase capital expenditures considerably over the next few years. Increased capital spending will be crucial for ramping up stalled environmental, safety, integrity, and reliability projects.

Given that increasing capital spending will be critical for most shale operators, the need to continue to optimize throughput and operating costs aggressively is a must. A robust deep-dive analytical review of operations in core parts of the value chain will enable companies to identify, quantify, and qualify additional improvement opportunities.

There are many simple examples of core activities that operators can focus on to drive additional value from operations.

Speaking from experience, we can quite confidently say that most of our clients become pretty upset when we start asking questions on day-to-day field operations that seem rather rudimentary and basic:

- How up-to-date are well targets currently being used by field operations?
- Are those targets clearly understood and being used by all?
- How frequently are those well targets reviewed by engineering and field operations?
- Are up-to-date key operating parameters defined for each piece of critical equipment?
- Does the organization have standardized routines to optimize operator time at the well site?
- Are there standardized checklists and intervention guides for each type of equipment?
- Are there clear metrics and targets cascaded down to the field operator to drive accountability for optimization?

The same principles apply when looking at optimizing cost across any element of the supply chain. Again, some basic questions might be:

- Have we truly optimized current vendor, contractor, supplier spend?
- Are we doing enough to optimize and deliver value through economies of scale but have the agility built into the supply chain to mitigate risk during a market, economic, or environmental crisis?
- Do we truly understand core cost drivers in key categories of OPEX spend?
- Are we managing our vendors and contractors, or are the vendors and contractors managing us?
- Do we conduct rigorous reviews of spend vs. targets/budgets throughout the organizational hierarchy, focusing at the organizational/operational level of expenditure?

There are many other fundamental questions, and we would typically expect that most operators would answer in the affirmative when asked such questions.

However, it is not surprising that when our clients decide to take a step back and conduct an in-depth assessment of their operations, there are additional opportunities identified in all cases. A well-worn phrase often used is that organizations must execute the basics flawlessly, and today, flawless execution often occurs when organizations widely utilize AI/IIoT across their operational and business value chain. Organizations must understand and integrate prioritized elements of digitalization to automate core business and operational processes and management systems where possible to deliver enhanced performance levels.

Digitalization has rapidly become a key differentiator, separating those thriving and those that will struggle to survive. We have published numerous other articles on the importance of digitalization and the relative ease with which you can implement AI/IIoT in today's operational and business environment. It will require great diligence, energy, and aggressive pursuit of digitalized operations excellence to navigate the challenges of the next few years.

Copyright © 2021 Audere Partners. All rights reserved.



Read more about **Oil & Gas**
by going to auderepartners.com/energy
or by scanning the QR code on the left.