

INCREASE COST SAVINGS AND FREE CASH FLOW: AN OPPORTUNITY FOR E&P



How Digital Field Tickets Drive
Efficiency that Positively Impacts
Your Bottom Line

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Wall Street's expectations of the oil & gas industry made an abrupt shift in late 2019. Before, investors supported E&P operators spending large sums to expand acreage; now financial markets are calling for companies to show free cash flow and returns to shareholders. To meet investor demands of sustainable free cash flow and continued operations without sacrificing production levels, operators must focus on spending as little as possible while maximizing free cash flow.¹

With tightening financial pressures, E&P companies should look within their own organizations to find opportunities for increased operational efficiency and technological advancements. According to a recent report by Deloitte, a prudent financial management strategy driven by operational and technological leadership could be key to retain or win back investors' trust. While many companies have made excellent progress, financial markets are still holding back to see if prudent financial performance can be sustained. The display of operational leadership by oil & gas companies and the patience of investors in finding and investing in these companies can turn out to be a huge opportunity for both in 2020.²

DIGITAL FIELD TICKETS STREAMLINE INTERNAL PROCESSES, CREATE COST SAVINGS, AND PROVIDE BETTER SPEND VISIBILITY AND MORE ACCURATE ACCRUALS FOR UNMANNED OPERATIONS

The truth remains that suppliers and operators have developed a complex ecosystem that benefits both sides. Anything that can be more economically delivered by focused providers with subject matter experts is delivered by the supply chain. In fact, third parties typically represent more than 50% of total E&P labor and spend, and so a key source of value is found through the supply chain.³ The oil industry depends on outsourcing.

1. Oil and Gas Production Forecast: 2020 and Beyond <https://www.hartenergy.com/exclusives/oil-and-gas-production-forecast-2020-and-beyond-184114>
2. 2020 Oil and Gas Industry Outlook <https://www2.deloitte.com/us/en/pages/energy-and-resources/articles/oil-and-gas-industry-outlook.html>
3. Delivering Long-Term Value in E&P <https://assets.kpmg/content/dam/kpmg/xx/pdf/2017/12/delivering-long-term-value-in-e-and-p.pdf>

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There have been major efforts in recent years to find hidden savings opportunities by improving this complex supply chain. Many E&P players believe, however, that they still have much further to go. In particular, they suspect that there remains considerable hidden “value leakage” in their transactions with suppliers. What is more difficult to identify is where, precisely, the problems lie and to what extent they are resolvable.⁴

One area of opportunity that many operators and their vendors have yet to refine is the workflows that must happen between a vendor and operator to manage payment for services rendered. Operators and suppliers are still using paper field tickets to document and track work performed.

The process of ticket approval by the Company Man is a perfect example of the inefficiency caused by paper. The Company Man must approve all work tickets completed at an operations site by a vendor. This becomes challenging as the Company Man managing production and ongoing operations activities is responsible for a vast number of wells and facilities; field supervisors are typically not present for the activities for which they are responsible.



A typical day for a Company Man might go like this:

There is a significant workover taking place, requiring him to be at the worksite overseeing a complex hot oil servicing job to remove extensive wax build-up from a producer. If there are issues at the well, it might consume the entire working day. Meanwhile, work in the Company Man’s area of responsibility goes on. Fluid haulers move oil, condensate, and water from and to batteries, gathering stations, and disposal sites. A pumping supplier has a maintenance contract for all the

pumpjacks in the field. That vendor undertakes regular service work for several of them and decides to swap out the control panel for a problem pump. A backhoe has been contracted to develop a new lease in the area, and a grader has been called into another site to repair an access road damaged in a recent storm.

All of these activities are the responsibility of the Company Man—yet he was monitoring a hot oil job all day and never had the opportunity to oversee any of the other activities. The various suppliers that fulfilled work orders that day might have ways of communicating with him directly, but most likely the first he is aware of the details is when the vendor drops off the associated field ticket. This might be at a regional office, it might be at a hotel where he is staying, it might even be in a plastic soda bottle cut in half at the entry gate to the property—taking days or even weeks to review after the work was done.

4. E&P Supplier Contracts: Where Does All the Value Go? <https://www.bcg.com/publications/2015/energy-environment-ep-supplier-contracts-where-does-value-go.aspx>

DIGITAL FIELD TICKETS POSITIVELY IMPACT YOUR BOTTOM LINE

Electronic field tickets get information directly to the operator virtually, in real-time. With mobile technology broadly adopted by corporations and individuals alike, water haulers, pump maintenance hands, and construction crews can instantly create and send a ticket to the Company Man, wherever he is, as soon as the work is done. An obvious benefit of instant submission is significantly shorter ticket approval times, allowing for invoices to be submitted faster. There are other added benefits that create greater efficiency and additional time and cost savings that can ultimately free up more cash flow to invest in your business.

Reduced Travel Increases Employee Safety and Productivity

Did you know fatalities on Texas roads and highways in the state's five major oil & gas production regions in 2018 accounted for close to half of all traffic fatalities in the state?⁵

Figure one shows a breakdown of serious crashes per energy region for 2018.

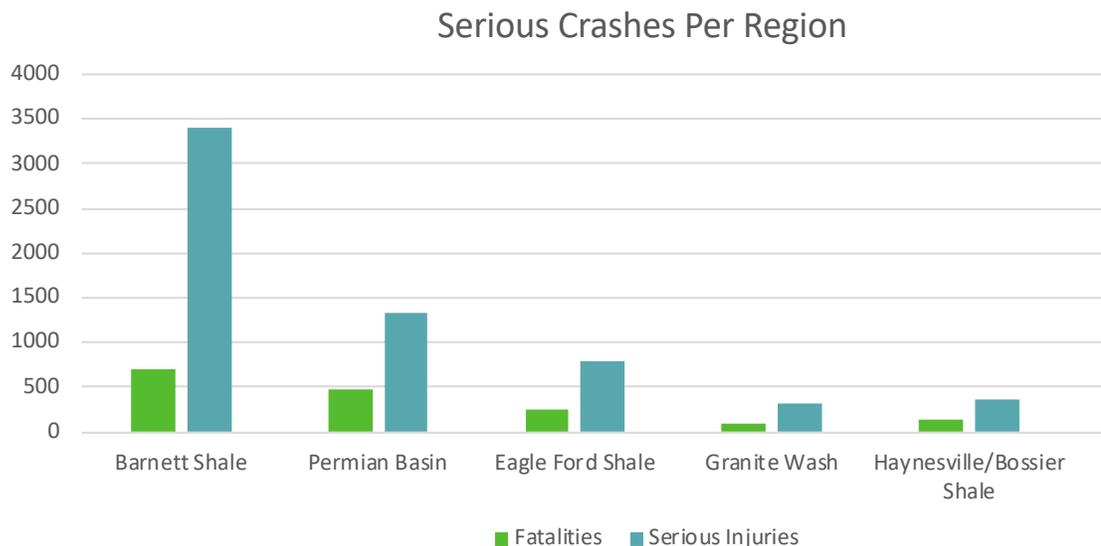


Figure 1: Collisions per region which resulted in fatality or serious injury.

5. TXDOT Website <https://www.txdot.gov/driver/share-road/be-safe-drive-smart/energy-sector.html>

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This data only represents collisions resulting in serious injury or death. Total collisions per energy region in 2018 remain much higher:

- **Barnett Shale:** 109,597 total collisions
- **Permian Basin:** 49,410 total collisions
- **Eagle Ford Shale:** 21,443 total collisions
- **Granite Wash:** 8,674 total collisions
- **Haynesville/Bossier Shale:** 9,512 total collisions

Some operators using digital field tickets will argue the most significant benefit comes from increased safety. Through digital approval of wirelessly transmitted field tickets, the custom of suppliers chasing the Company Men for signatures is eliminated. Traffic incidents continue to be the largest single cause of fatalities in the oil & gas industry. Getting vehicles off the road is a huge benefit for everyone involved. In addition, think about the employee time and associated travel costs saved by reducing travel.

On-time Accruals, Reduced Overhead, and Improved Visibility into Spend

Operating companies are already taking advantage of this opportunity. An operator in the Marcellus has equipped 600 of their suppliers with a mobile digital field ticketing application. Fluid hauling and disposal tracking takes place daily. Previously, the operator struggled to get fluid volume accruals by the end of every month as the state regulatory body mandated. With digital field tickets, the operator can improve accuracy and eliminate an inordinate amount of overhead. In addition, there is instant visibility into operations spend through leveraging the suppliers being onsite and proactively providing data.

Shorter Cycle Times from Service to Payment for Suppliers

What's in it for the suppliers? The faster and more accurately they provide field tickets, the shorter the cycle time between service and payment. Providing digital field tickets allows a direct electronic line for line match between the field ticket and the invoice and can even validate contract pricing during the field ticket approval process. This reduces churn, eliminating undue effort on both sides.

Unlock Operational Excellence and Free Up Cash Flow in 2020

The supply chain is complicated between operators and suppliers in the oil & gas industry. By shifting from outdated paper field tickets—that come with safety risks, inaccuracies, and delayed approval times—toward a digital field ticket system, operators increase their operating efficiency beyond maximizing production levels. With reduced overhead, on-time accruals, reduced travel, and greater visibility into spend, digital field tickets are a way for E&P companies to drive operational excellence and free up cash flow in 2020.

ABOUT OPENTICKET

OpenTicket, a cloud-based field ticket management solution that integrates seamlessly to OpenInvoice, empowers operators and suppliers to generate, review, and approve digital field tickets for faster invoice approvals and payment. Learn more about OpenTicket at www.oildex.com/products/openticket/ or email us at businessdevelopment@enverus.com.