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Supply Chain *Update*

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The emergence of good practice during turbulent times

(by Norman McLennan, supply chain manager, Oil & Gas UK)

The current climate is unquestionably difficult for most industries and of course the UK upstream oil and gas sector is not immune. That said however, our sector is still open for business and fairing well by comparison with others.

In times of economic uncertainty, good practice can drive waste and inefficiency out of the supply chain and encourage rapid organisational shift towards more sustainable cost management practices. Security of critical supplier networks is also vital, and combined, all these factors add up to the success of our supply chain, from end user clients through all the tiers of contractor and suppliers.

Such good practice of course lies at the heart of what we promote via the Supply Chain Code of Practice (SCCoP) coupled with the many collaborative initiatives that have been set in motion by Oil & Gas UK's Supply Chain Forum. It is therefore timely that we focus this latest issue of Supply Chain Update on the forum's creativity in developing supportive measures and how the industry is responding. Much of the forum's work has centred on 'self help', i.e. how the industry can help itself through the recession by adopting better working practices, innovative contracting models and a more collaborative approach. The forum has also looked at the financial help that is available to SMEs and created a unique web information portal to help SMEs reduce their exposure to financial and commercial risks during the current economic climate. More details can be found on page 3.

Also, on page 5 Bill Cattanach, head of the PILOT secretariat, reflects on the recent Supply Chain Code of Practice survey, which confirmed that while companies are making greater use of model ITTs and standard contracts, there has been a decrease in compliance with 30 day payment provisions, a worrying trend which needs to be addressed on an industry-wide level.

What is important in times like these is that we learn from each other, by sharing best practice and creating innovative business solutions that can be applied across the wider industry. In this newsletter we introduce you to the two finalists for the Oil & Gas UK Joint Award for Supply Chain Business Innovation. The two case studies show how an integrated approach to supply chain operations and a flexible contracting model can bring benefits to both the supplier and purchaser.

On our code of practice page, we give you a preview of what's happening at this year's PILOT Share Fair. The number of bookings available for one-to-one sessions with prospective buyers of oilfield goods and services has been increased to a record level and for the first time, the Share Fair will feature a 'self help zone' where delegates can find out more about the various initiatives, financial packages and business incentives that are on hand to help steer companies through the current economic downturn.

I hope you enjoy this issue of Supply Chain Update. Please feel free to contact me should you have any comments on 01224 577250.

FPAL - how relevant is it?

by Ian Donaldson, chair of the FPAL
Steering Committee

Ian Donaldson (manager, materials and contracts, Talisman Energy (UK) Limited) and chair of the FPAL Steering Committee, reflects on FPAL's origins and its relevance to the current drive to reduce industry costs.

They say that those who cannot learn from history are doomed to repeat it and so it is interesting to consider how our industry reacted to low oil and gas prices in the past and the subsequent pressures to reduce costs. FPAL's creation was a reaction to challenging market conditions in the last decade. It was established by a small group of operators and main contractors in 1996 and it grew out of three pre-existing initiatives: QUASCO, the OSCAR registration scheme and CRINE.

QUASCO was established in the mid 80s and owned by a number of operators. Its prime role was to carry out supplier appraisals and to share the results, thus avoiding duplication of effort. The OSCAR registration scheme was set up by Achilles and by 1996 around 1700 suppliers had requested that their information be listed on the database. The third and most important precursor to FPAL was the government and industry-led CRINE initiative. CRINE, or the Cost Reduction Initiative for the New Era, was the industry's response to the \$10 bbl experienced in 1996 and its principles are still relevant today. A supply chain sub group of CRINE recommended that a shared database containing supplier capability profiling and performance feedback information be created. The founding members of FPAL (Amec, Amerada Hess, BP, Brown & Root, Conoco, EIC, Kvaerner, McDermott, Saipem, Shell & Total) recognised the potential for cost savings through a simplified and shared pre-qualification service and decided that the functions of OSCAR and QUASCO should be absorbed into one body to create FPAL and that the service should be provided by Achilles.

Achievements and challenges

Under the guidance of the steering committee which meets quarterly, the FPAL service has evolved over the past 13 years. The committee comprises five operators, four main contractors, two suppliers and a representative from Oil & Gas UK. FPAL has grown steadily and now has almost 90 purchasers, over 2600 registered suppliers, 13,000 records of performance feedback and around 400 audit reports. This is a tremendous achievement but the committee is aware that, with current oil and gas prices once again sharpening focus on cost reduction, progress needs to be maintained if we are to reap the full cost-saving benefits of FPAL.

The committee directed FPAL management to carry out an extensive user consultation exercise in 2007/8 to identify any opportunities for improvement. The over-riding sentiment was that whilst FPAL was generally considered to be fit-for-purpose, it could nevertheless be improved by the introduction of a so called "visible pre-qual" stage, which would give full on-line visibility of supplier pre-qualification information to purchasers.

Visible pre-qual was duly delivered in 2008 via a new 'advanced registration questionnaire' which replaced the former costly and time consuming 'capability profile questionnaire'. The new questionnaire dramatically shortens the procurement cycle and allows the purchaser to focus quickly on contract-specific technical and commercial issues, saving both the purchaser and supplier time and money.

Over 100 suppliers have completed the new questionnaire with more than a further 100 making good progress towards completion. This new questionnaire is easier and quicker for suppliers to complete and for the

first time allows them to upload more than 40 pieces of supporting evidence and documentation on-line. Purchasers now have the advantage of being able to see all the supplier responses and supporting information. Of course, none of this means a thing unless we actually use this new facility.

The committee is only too well aware that there is much evidence of old style pre-qual questionnaires still landing on suppliers' desks. We have to work towards eradicating this wasteful activity, especially in light of the renewed drive to force down costs. This is why the committee has begun a 'user behaviour initiative' which seeks to encourage suppliers to complete the new questionnaire and purchasers to use it in preference to their own company-specific questionnaires. In June, I wrote to each and every FPAL purchaser on behalf of the committee, advising them that senior FPAL management would be seeking a meeting to discuss the issue. These interviews - which have been likened to the FPAL version of the National Conversation - are now well underway and appropriately I was their first appointment.

The outcome of this process will be a set of best practices and improvement opportunities which the industry can adopt. We expect this process to be completed later this year and the committee hopes that it will lead to more effective use of FPAL, greater compliance with the Supply Chain Code of Practice and significant cost savings. Neither the purchaser nor the supplier communities can achieve this alone and success will depend on both parties being willing to take full advantage of FPAL.

I think we can make some real progress here but it will take a determined and sustained effort by the whole supply chain.



Industry 'self help' initiatives focus on SMEs

Oil & Gas UK has developed a brand new 'self help zone' at PILOT Share Fair this year for small to medium sized enterprises (SMEs). Representatives from major UK financial institutions and management consultancies have taken stand space to promote their products and services on offer to help guide companies through the current economic climate. Drop-in style booths run by Accenture, HSBC, Barclays and UK Trade & Investment (UKTI) will be available for informal networking or confidential chats.

Malcolm Webb, Oil & Gas UK's chief executive, said: "The introduction of the new 'self help zone' is an entirely appropriate response to the challenges that our industry's supply chain is currently facing. The rationale behind the zone's creation is to offer support and raise awareness of helpful measures which can substantially benefit organisations during these turbulent trading times and we are delighted to have secured participation from some of the UK's major financial and management institutions."

In addition, Oil & Gas UK has launched a new web information portal designed to help SMEs in the oil and gas supply chain reduce their exposure to financial and commercial risks in the current economic climate.

From its discussions with supply chain representatives, Oil & Gas UK learned that they were not fully aware of the various support measures that are now available to businesses. The web portal



will provide a single access point for the diverse sources of useful information that purchasers, contractors and suppliers may wish to consider when making business decisions.

The topics that can be reached through the portal are wide-ranging and include concise, practical tips as well as recommended best practice. There are links to items on:

- funding mechanisms such as government initiatives and banking facilities;
- commercial measures which mitigate risk and protect company interests such as supplier management,

customer management, and managing work from delivery to payment;

- contractual measures which include information about governing law and jurisdiction and practical advice on legal arrangements;
- insurance information which includes foreign ventures insurance and credit insurance.

The information portal can be accessed through the supply chain section of Oil & Gas UK's website: http://www.oilandgasuk.co.uk/issues/operations/supply_chainsme.cfm

Oil & Gas UK creates new supply chain directorate

Oil & Gas UK is creating a new, dedicated supply chain directorate to increase its ability to promote the UK based offshore oil and gas supply chain and address related issues and interests. With membership growing steadily, the

Board of Oil & Gas UK has recognised the need to strengthen this particular work front within the organisation so that the importance of the contribution this sector makes to the UK economy can be better understood and communicated.

The new directorate will have a team of four, and will report to Oil & Gas UK's chief executive. Recruitment for the new posts will start in early November. Further details will be advertised and posted on the Oil & Gas UK website.

Supply Chain Code of Practice

streamlining processes and increasing value for the oil and gas industry

First Code of Practice compliance levels to be awarded

In December this year, the first tier ratings will be awarded to signatories of the Supply Chain Code of Practice, with a number of companies set to achieve gold level. The new scheme provides a structured system for continuous progression towards fuller code compliance, allowing companies to take compliance as far as is practically possible and achievable within corporate constraints. Commenting on the good results achieved this year, Norman McLennan, Oil & Gas UK's supply chain manager, said: "We recognise that some organisations may never be able to fully comply with the code; however it is encouraging to see a number of companies already striving for gold level in the first year of the scheme."

There are four levels of compliance:

Initial stage

For new companies signing up to the code and working towards compliance.



Bronze level

This is the first 'earned' level. To earn bronze status, a company must have received at least five FPAL Report 3 feedback reports from different businesses and an average score of at least 5 on the feedback received from the three compliance questions. Companies must also participate in the annual code of compliance survey.



Silver level

The next level based on at least five FPAL Report 3 feedback reports received from different companies and an average score of at least 7 on the three compliance questions. Companies must also participate in the annual code compliance survey.



Gold level

The highest possible level of compliance based on at least ten FPAL Report 3 feedback reports from different companies and an average score of at least 8 on the feedback received from the three compliance questions, plus demonstrable participation in Share Fair, at least every second year. Companies must also participate in the annual compliance survey.

PILOT Share Fair 11 set to boost supply chain activity



This year's PILOT Share Fair, sponsored by CAN, could be the most important yet. In times of uncertainty, driving out waste, reducing costs and increasing efficiency should be every company's priority. With 11 major oil and gas players set to unveil their 18 month forward plans for projects in the North Sea in over 80 presentations scheduled throughout the day, this event aims to improve the quality and quantity of information available to suppliers, and help make companies' buying plans more transparent. It is hoped that the efficiency of business deals can in this way be improved, providing a significant benefit in the current economic climate.

Amec, BG Group, BP, Nexen, Petro-Canada, Petrofac, PSN, Shell, Taqa, Total and Wood Group will all be presenting at Share Fair 11.

For the first time, due to high demand, Oil & Gas UK has increased the number of one-to-one sessions, with a total of 816 sessions available for pre-booking. These provide a unique opportunity for delegates to build a relationship with the major operators and contractors present at Share Fair 11 and also give a valuable insight into what purchasers are looking for, who the key contacts are within the purchasing organisations, and how receptive they could be to new business solutions.

Malcolm Webb, chief executive of Oil

& Gas UK, said: "The ground breaking one-to-one sessions that have been developed by Oil & Gas UK are now a central part of the PILOT Share Fair. More leading companies than ever before have agreed to participate this year. These sessions provide an excellent opportunity for smaller suppliers to meet with some of the larger companies they might not engage with face-to-face in the normal course of events. In the current economic climate, this unique opportunity to put your case directly could be invaluable."

PILOT Share Fair 11 takes place on 4 November at the Aberdeen Exhibition and Conference Centre. For information and bookings, contact Oil & Gas UK's events team on 01224 577250.

The oil and gas supply chain – an intrinsic part of the industry

by **Bill Cattanach, head of PILOT Secretariat, Industry & Technology Development for DECC**



There are three vital stakeholders in a vibrant oil and gas basin – government as custodians of the nation's resources, operators with the capital and expertise to locate and extract the reserves and lastly, but extremely important, the service community who makes it all happen. When it comes to pecking order, the supply sector often feels at the bottom of the heap with all sorts of pain passed down to them. That is why government is very supportive of the Supply Chain Code of Practice which aims to bring efficiencies and fairness into the market place. We were encouraged to see this year's survey results which highlighted some overall improvement in compliance. It was particularly pleasing to see a positive shift in the application of KPIs and FPAL usage. Also, greater uptake of Model ITTs will help remove unnecessary waste at this critical time where all operators are looking at ways to cut costs. Challenging economic times tend to focus attention on improved efficiencies and we must not waste the opportunity of this downturn to actively engage a wider audience to become part of this growing base of signatories to the code which has nearly reached another milestone of 150 committed companies. The overall drive is to improve competitiveness in the UKCS and where possible find a way to get these marginal projects into the sanctioned box. Success here will bring added prosperity to all stakeholders.

The most disappointing outcome from the survey is in relation to efficient payment of invoices. After successive years of improvement in this area, compliance has fallen back significantly. In a year where cash flow is very important, especially to small service companies, the impact of this decline in conformity has exacerbated an already difficult

situation. This has been identified as a key priority for future focus by the supply sector and both DECC and Oil & Gas UK have offered resources to seek innovative ways of stimulating improvements here, and as a first step held a small workshop during Offshore Europe to identify new ways to deal with the issue.

As part of the ongoing process of improvement, a letter was also issued to all code signatories from the Oil & Gas UK co-chairs and DECC's EDU director, providing a summary of this year's survey results and inviting suggestions for improvement. Going forward, the intention is to focus on four areas: contracts with stated payment terms greater than the standard 30 days; average payment period across all contracts; contracts bringing average payment period beyond contractual level; and the introduction of mechanisms to aid improvement.

Finally it is hoped that the new tiered compliance status soon to be awarded will stimulate a competitive spirit and provide new impetus to compliance and behavioural change. Instrumental to achieving 'Gold Status' will be participation at the PILOT Share Fair and posting 'forward work plans' on the PILOT Forward Work Plan website. I would encourage those of you not yet signed up to these initiatives to consider how you may be able to contribute in some way. As already alluded to if, as an industry, we all make more effort to participate and comply with the spirit of the code, we will make the UKCS more competitive by improving performance and eliminating unnecessary costs, as well as adding value and boosting the prosperity of every stakeholder in the basin.

Cost efficiencies focus of Oil & Gas UK seminar

This full-day seminar will give delegates the opportunity to learn from industry leaders about some of the initiatives and best practice procedures that are already in place to help optimise operating cost efficiency. Speakers from a range of operators, contractors and technology organisations will explore ways in which operating efficiency can be improved, including in logistics and contracting and through planning

and the application of technology. Delegates will then have the opportunity to discuss potential challenges arising from these issues. This event will be held at the Aberdeen Exhibition and Conference Centre on 11 November 2009. For more information, or to book a place, contact our events team on 01224 577250.

Innovative contracting models key to supply chain success

It is not the first time that we write about the value of collaborative supply chain management. At Oil & Gas UK, we believe that innovative business models can help drive out waste from supply chain operations, increase efficiencies and ultimately reduce costs for all parties involved. This is the reason why we have created the Oil & Gas UK Joint Award for Supply Chain Business Innovation, which recognises the implementation of novel contracting strategies between two companies, an operator and a contractor, with the potential for wider application across the industry.

In a year which has been far from easy for the industry, the two Award finalists, Aker Solutions jointly with Nexen and Halliburton jointly with E.On Ruhrgas, have shown excellent examples of using innovative business models.

Integrated business solutions is not a new concept, but with Aker Solutions, the industry has an example of a company who uses an integrated approach to supply chain management to create real value for their client Nexen, creating stability independent of the oil price or activity levels. With the acquisition of PSV Solutions, a fabricator of exotic pipe work and overlay welding, in early 2008, the first for the company in over a decade, Aker Solutions ensured continuous access to fabrication services (at a time when prices and activity were rising rapidly). Taking control of a major part of the company's supply chain enabled Aker Solutions to secure the capacity their clients demanded.

Initially, the purchase of PSV was made to ensure access to fabrication capacity, however, this new integrated approach meant that Aker Solutions was able to innovate their contractual arrangements with their clients when the oil price plummeted, ensuring continuing demand for its services, but also higher efficiencies and lower costs for their

clients. By analysing the company's fabrication spend, Aker Solutions was able to proactively propose a fabrication model to their client Nexen. By putting in place a standard set of fabrication rates that would be held constant over the course of the year, the boom and bust cycle of summer and winter fabrication rates was eliminated. This offered Nexen greater clarity and predictability of their fabrication spend. Aker Solutions further proposed that all orders under a predetermined value be single sourced to PSV. By doing this, they eliminated the need to tender these smaller pieces of work.

This approach eliminates waste from the company's procurement process as it no longer needs to send out, receive and evaluate tender packages where, at low contract values, no benefit was being added to Nexen. Similarly, the other fabrication partners that the company has, no longer waste time on having to respond to low value tenders and can spend more time on bigger scopes of work that the company still puts out to tender in the market place.

Another excellent example of innovative arrangements leading to significant benefits for all parties is that of the collaboration between Halliburton and E.On Ruhrgas, the other finalist in this year's Oil & Gas UK Awards. Halliburton recognised that the smaller operating companies on the UKCS, such as E.On Ruhrgas and its peers, need to execute fracturing programmes on their North Sea tight gas reservoirs in order to improve the economics of their new fields as well as extend the life of their mature assets. To do so requires the use of dedicated stimulation class vessels. However, over the last decade, only a limited number of vessels with the necessary stimulation and chemical services have been available to North Sea operators. As a result, these vessels have been tied up in long-term fracturing

campaigns by the larger operators who have been able to make the substantial financial investment required. A more flexible commercial model was required to fulfil the needs of smaller operators.

In early 2008, E.On Ruhrgas initiated a full tender process, which included Halliburton on a project that aimed to provide such a solution to the North Sea market, and in May 2009 Halliburton launched the purpose-built Normand Vester Stimulation Class vessel in Aberdeen. A new contracting model ensured that E.On Ruhrgas and partners had access to best-in-class stimulation technology without having to commit to a costly long-term contract. The contract options allow for single or multi-well campaigns with no risk of limited access or restrictive penalties. In addition, an 'all-inclusive' pricing solution provides access to Halliburton's engineering services and E.On Ruhrgas with confidence on their project costs. This novel contracting strategy effectively created the vehicle for a virtual vessel club where any potential schedule clashes are minimised through access to Halliburton's other vessels operating in the North Sea. The new contracting strategy also allows E.On Ruhrgas to sublease the vessel for shorter single-well projects, where availability permits. This provides cost-effective fracturing to the contracting operator and allows smaller entrants into the market. An expanding list of customers, including Wintershall, TAQA, Perenco and Statoil are now taking advantage of the new stimulation vessel capabilities.

If you would like to find out who wins the Oil & Gas UK Joint Award for Supply Chain Business Innovation, join us at our Awards dinner on 05 November 2009 at the Aberdeen Exhibition and Conference Centre. To book a table, contact our events team on 01224 577250.