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Costs and productivity
in oil and gas

Making the most
of the 'new normal'



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Introduction

As operators move from investment and construction to operations and production, Australia's LNG boom remains a transformative, once-in-a-lifetime opportunity – for both the national economy and for those active in the sector.

Yet just as the taps are turning on multiple mega-projects, uncertainty around commodity prices, and a number of other disruptive forces are testing the resolve of market participants.

In this 'new normal' environment, cost management and improved productivity will be increasingly important – for operators themselves, their investors, governments, agencies and the sector that services oil and gas.

Accepting, and winning, the cost and productivity challenge is therefore a hot topic. But it also needs to be a serious pursuit – across strategy, finance, tax, people, processes, systems, performance, supply chain, assets, and organisation.

In the transition to operations, and business as usual, hard decisions will be required – not just on what to do, but on what not to do – to survive, and to flourish.

At Deloitte, we 'get' oil and gas. Our partners and teams have deep local and global industry experience across every aspect of business operation, and the strongest commitment to providing value and solutions to client problems.

We're here to help.



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Logistics – procurement, management, analysis



Logistics procurement and management are important, and can be complex.

We can provide cost-effective technology-based fleet management solutions and full lifecycle buyer side support that covers provision, requirement specifications, tender development and evaluation, contractual negotiations and integration.

For in-service systems, our approach delivers world-class operations across safety and efficiency and our analytics and information technology teams, which combined are the largest in Australia, can provide advanced data analysis and detailed logistics modelling that drives real fleet optimisation and efficiency.



Case study

The client

We were engaged by our client, a large rail freight and heavy vehicle operator supporting the resources sector, to source, implement and integrate a new in-vehicle telematics (tracking and diagnostics) system that would deliver a safer and more efficient fleet operation, provide a more granular understanding of the freight distribution business and real business optimisation opportunities.

The challenges

The client's fleet logistics activities were complex and a safer operation was paramount, and a major driver in terms of selecting the right telematics solution.

The technology is one part of the system, but just as important is the ecosystem that supports it to drive safer operations. Integration with the client's other technology systems was therefore an important consideration.

How we helped

We conducted a detailed assessment of the client's requirements that included identifying cost optimisation opportunities through the analysis of telematics data in conjunction with other business data.

Through a wide-ranging technology vendor selection process, we chose a provider that could meet all technical and commercial requirements.

We designed a detailed implementation plan that would be critical to the success of this technology-lead business reform and that spanned technology through to cultural change management.

Our tailored integration approach covered both operational and commercial optimisation, and allows for client specific analysis and reporting of business performance.

Capital projects – operational readiness



The capital project lifecycle is defined by financial decision making, technical design and rigorous construction planning and execution, but project teams often underestimate the practical implications of decisions during project development phases for operational readiness.

In simple terms, getting operational readiness wrong can lead to value destruction as a capital project transitions from construction to ramp-up and steady-state production.

Typical challenges include people, systems, infrastructure, procurement, regulatory compliance and unforeseen, project-specific blind spots.

Our collaborative operational readiness approach empowers project teams and operation owners to proactively identify and integrate critical readiness tasks into the overall capital planning and execution process, underpinned by a rigorous risk management focus to identify and plan for critical ramp-up pitfalls.

Our specialised capability includes strategic options analysis, people transition strategies, planning and execution, business case robustness reviews, schedule risk analysis and project management control systems.



Case study

The client

As it developed a new mining operation, this client was struggling to develop an operational readiness framework that was suitably aligned to the major capital project lifecycle and that would ensure the project would meet ramp-up requirements, business case objectives and not cause any value erosion.

The challenges

The client's operational readiness team was relatively new and still developing capabilities, while the pre-appointment project framework was limited in scope, had no clear definitions around operational readiness and limited planning and resources dedicated to readiness on current projects.

Where projects were in execution phase of the lifecycle, readiness planning was under-developed, and other parts of the organisation were also trying to implement their own readiness initiatives.

How we helped

We worked with the client's 'project hub' to define what operational readiness was and how it should be interpreted across the business, review current practices and develop a suitable and tailored readiness framework and integrated project plan to identify and address potential pain points and planning gaps.

Key activities for each framework element were defined. Tools and templates to support the framework were also developed, as was an operational readiness toolbox that included a risk diagnostic tool to assist with the identification of activities critical to ensuring a successful project ramp-up.

Asset valuations – bottom line benefits



Innovative and informed approaches to fixed asset valuations and power and plant equipment management can deliver real bottom line and competitive advantages to asset owners, users and financiers, including in the resources sector.

Incorrectly depreciating an asset can have major balance sheet impacts, sometimes in the order of hundreds of millions of dollars, so the right valuation expertise can help organisations mitigate risk and better manage assets for tax consolidation purposes, stamp duty, accounting compliance, asset reconciliation and insurance compliance.

With deep technical and industry expertise, our dedicated asset valuations team is a market leader in preparing independent expert reports supporting complex transactions.



Case study

The client

Our oil company client had announced a planned merger with a competitor via a scheme of arrangement.

We were engaged by the client's board to provide an independent expert's report advising whether the proposed scheme was in the best interests of shareholders.

The challenges

Assessment of fairness required comparing the value of one client share with the value of the interest to be received in the proposed merged entity on an equivalent control basis.

This analysis required the valuation assessment of all of the assets of both entities, which included a wide range of exploration, development and production assets, both onshore and offshore.

How we helped

We carried out a detailed study of all key assets, engaging and working closely with both external and internal technical experts, to develop an understanding of the risks and the economic potential of the assets.

We also developed views on macroeconomic metrics that would drive the commercial performance of the assets in future and formed a view on the value of the assets.

Asset management – efficiency and opportunity



Just as having a detailed understanding of the value of assets is important, so is managing those assets and understanding their potential.

We work with client management and technical teams to independently review the upside potential of a company's upstream assets and their associated economic results and expectations using geological, geophysical, engineering, and economic analysis.

We then create an overall ranking system that prioritises assets to suit the client's vision and strategy through reserve and resource assessment, economic characterisation, identifying optimisation opportunities, and benchmarking.

The right approach can help identify strategic and business development opportunities for assets that do not fit a current corporate development focus or capital budget, a better understanding of high cost assets, optimisation or divestiture opportunities that align the asset with corporate strategy and, ultimately, the ability to run a large, low cost asset base more efficiently.



Case study

The client

We were engaged by this large offshore oil and gas business to provide an independent, external and consistent assessment of its entire portfolio of assets.

The challenge

Guidance across the client's operational teams and regions was inconsistent, leading management to question the accuracy and quality of its own analysis and hindering forward projections, planning and budgets.

How we helped

We reviewed all asset areas to provide an independent view of the potential volumes and value associated with each area by quantifying incremental value that could be seen 'beyond the reserves report'.

Our technical team prepared overall estimates for in-place and recoverable volumes, as well as a comprehensive development program with type curves and associated cash flows.

Based on our comparative analysis, a new strategic plan was developed for the client's assets which 'high graded' development opportunities available. This resulted in a number of divestments and strategic acquisitions which better positioned the company to focus on core assets, more efficiently and more cost effectively.

Mergers and acquisitions – local or global



In the current volatile environment, M&A activity involving oil and gas operators is both a reality and an opportunity.

Our global oil and gas transactions practice, with more than 3000 industry specialists, has a presence on every continent and in each major industry centre.

We support companies with all or any part of their divestment, investment, farm-in/farm-out or capital/debt raising strategies, and are particularly active in the mid-market, specialising in transactions up to \$500 million.

Our services cover the full deal spectrum, including overall non-organic strategy support, portfolio and market review, deal identification/selection, consideration of targets/buyers, funding options strategy and structuring, management of due diligence negotiation, offers and transaction documents and completion.



Case study

The client

An ASX-listed upstream oil and gas operator with which we had a longstanding relationship needed to acquire a producing asset with cash flow to enhance its overall exploration-based portfolio.

The challenges

The client had no cash, making flow modelling key to raising finance to complete the deal. The new asset also needed to add value within the client's geographic portfolio.

How we helped

We independently sourced the target assets and then assisted with the strategic acquisition. The transaction gave the client one cash producing asset and one 'close to cash' producing asset in the heart of its exploration acreage.

We successfully circumvented what would have been a competitive process for the assets, and which could have resulted in the client paying more or being unsuccessful.

The client subsequently achieved a substantial share re-rating.

Tax – optimisation, recoveries, structuring



For oil and gas companies undertaking global expansion and structuring, tax compliance and tax risk management are critical.

The same applies to those acquiring or divesting local assets, where the right buy or sell side assistance with income tax and Petroleum Resource Rent Tax (PRRT) issues related to commercial structures and financing can make a significant difference.

Teaming with global engineering services provider WorleyParsons, we also offer a unique service in developing comprehensive fixed asset frameworks to meet tax compliance obligations and substantiate capital allowance claims, both of which can which impact project payoffs/net present value (NPV).

We produce fixed asset registers from a limited set of data elements or parameters, and add the necessary granularity to create, or recreate, the detailed asset register based on design specifications, actual amount spent and maintenance schedules.



Case study

The client

Our client faced diverse challenges in managing the fiscal aspects of its multi-faceted portfolio of assets at different lifecycle stages, and expansion opportunities locally and overseas.

The challenge

In exploring acreage acquisitions offshore, the client had to navigate the intricacies of multiple overseas tax regimes. It had also embarked on several acquisitions of established, producing assets locally, to bolster its petroleum reserves. As a result, the tax issues faced were significant and complex, affecting ultimate shareholder returns.



Meanwhile, in preparation for a project's start-up phase, a robust fixed asset framework was needed to satisfy diverse tax, accounting and asset maintenance requirements. Yet, like many turnkey engineering, procurement and construction arrangements, transparency of detailed information was limited.

How we helped

To facilitate the client's global expansion, we advised on overseas tax regimes and established processes to comply with in-country tax obligations and to facilitate efficient profit repatriation to Australia.

We supported the Australian asset acquisitions by providing due diligence assistance to ensure tax risks were identified and mitigated through the commercial negotiations, advising on the tax aspects of acquisition financing critical to client investment hurdles, and analysing the after-tax acquisition cost, factoring in tax concessions and recoveries available through expected tax amortisation and depreciation profiles.

Finally, we helped the client construct a fixed assets register for asset breakup and costings. This provided a solid foundation for an asset system, and improved identification of available tax concessions, incentives and recoveries for capital expenses.

Transfer pricing – scrutiny and solutions



The global focus on transactions (transfer pricing) between Australian producers and international related entities is under increasing scrutiny, with cross-border intra-group LNG sales, financing arrangements, intellectual property transfers and offshore marketing/trading hubs all examples of transactions that must be conducted at arm's length.

Given increased scrutiny of revenue authorities on the allocation of risk and profits within oil and gas multinationals, transfer pricing is therefore a key tax risk which must be managed. Transfer pricing is also relevant in a domestic context, given the application of the arm's length principle within the Petroleum Resource Rent Tax (PRRT) regime.

Our national and global transfer pricing network helps clients manage risks by aligning practical transfer pricing solutions with their overall business operations and objectives.



Case study

The client

Our downstream joint venture client needed help in preparing documentation to support the pricing of its LNG sales to overseas related parties and to support charges paid to its offshore LNG/liquids related party service providers.

The challenges

Particularly in the current environment of increased scrutiny, getting transfer pricing right is more important than ever.

How we helped

We reviewed the client's related and third party LNG sale and purchase agreements (SPAs), comparing the terms and conditions of the transactions to establish that pricing of minority equity interest holders' SPAs could be used as a basis for the pricing of the client's related party sales.

We considered all comparability factors critical to any comparable uncontrolled price analysis, as required by the OECD and the Australian Tax Office under Australia's new transfer pricing rules. We also analysed what services/functions offshore marketing service providers, compared to marketing/trading hubs, were performing in respect of both LNG and liquids sales.

Understanding their functions, assets and risks was critical to helping determine the appropriate method or mechanism for remunerating them and an appropriate price for their services. Given this can be significantly different to a cost-based service fee, such cases are under intense ATO scrutiny. The client's SPAs, and evidence of the arm's length methods of pricing, were pivotal in the project reaching final investment decision and in third party financiers agreeing to provide funding to support the construction and development.

Resources lending – an independent assessment service



Giving financial institutions access to the best possible information on which to base their resources sector lending decisions is in everyone's interest.

We provide independent third party assessments (reserves assessments) of initial, year-end, or mid-year corporate reserve evaluation reports prepared for the lender's clients by their own corporate reserve evaluation evaluators.

This specialist service includes an opinion on overall corporate asset composition, maturity, and other risk considerations which might affect or influence the lender's lending covenants



Case study

The client

A leading offshore lender to the resources sector didn't have the in-house technical expertise to provide expert assessments of third party reserve reports that were yielding inconsistent lending decisions.

The challenge

The client lacked specific expertise in varied conventional and unconventional play types, and adjusting cash flow models based on price, volume, producing rates for specific jurisdictions, commodities and price differentials.

How we helped

We provided the client with a detailed reserve and modified cash flows assessment for multiple companies and over multiple timeframes.

We reviewed recoverable reserves, production rates, yields and by-products, operating costs and capital, royalties, new drills and non-producing conversions, as well as acquisitions or divestments.

This independent assessment helped ensure a consistent, recognisable standard was applied internally to all loans and supported lending decisions and actions that observed internal guidelines and supported corporate strategy.

Cost-out transformation – winning on costs and productivity



High operating costs and declining commodity prices are compromising Australia's competitiveness in oil and gas, so the sector needs to shift its focus inward for solutions to maximise operational efficiency and effectiveness.

We specialise in a broad suite of operational optimisation advisory services that include large scale business improvement, asset management and supply chain optimisation, sourcing and procurement, lean-based productivity initiatives, frontline coaching and short interval control for on-site supervisors.

We leverage our unique combination of expertise in data, digital, strategy and operations and human performance to drive process and behaviour change and deliver rapid and sustainable improvements in productivity, cost reduction and resource allocation.



Case study

The client

We were engaged by this resources engineering and construction client to develop and implement planning process routines and frontline leadership disciplines to ensure consistent alignment with project schedules, contractual milestones, quality requirements and projected costs.

The challenges

The client was experiencing budget and timing issues, which was particularly an issue with fixed cost based projects.

An ineffective pre-project planning process was impacting operational readiness in terms of resources, materials/logistics, plant and equipment, unrealistic KPIs, inconsistent site communication and ineffective management performance.

How we helped

We mapped and identified gaps in project planning and reporting systems, developed and implemented a short-term planning process to align project schedule to shift plans, and developed and implemented a management process to identify variances to plan, root causes and solutions/controls.

A training and coaching methodology addressed project leadership tasking, control, reporting and planning issues and increased active field supervision, reduced ineffective managerial administration tasks, and clearly defined management roles and responsibilities to leverage accountability.

People – a new future of work



In a cost and productivity focused environment, oil and gas operators need to challenge existing practices, simplify their work environment and consider how they leverage technology.

Leading, engaging, evaluating and developing people through times of change, and reimagining the future of work by creating high-quality, cost-effective HR service models powered by technology capabilities is clearly important in creating more productive, efficient and innovative operations.

Our human capital practice applies deep industry experience and globally recognised HR, talent, and organisation design and transformation capabilities to help leaders at all levels design and align their leadership, people, organisation, and culture to meet changing business needs across the likes of enterprise cost reduction, risk and regulatory reform, mergers and acquisitions and finance transformation.



Case study

The client

We were engaged by this large Australian oil and gas producer to provide a range of human capital advisory and implementation services across organisational redesign relating to its LNG operations.

The challenge

Like all operators in the current environment, but particularly those involved in major capital projects, the client had to manage complex organisational change, including from infrastructure construction to production.

How we helped

We were engaged over a 12-month period to work with the client on its target operating model for its LNG operations, and transition the organisation into that model.

With approximately 400 employees directly impacted by the change, we provided organisation design, change management, communication, and implementation planning and workforce transition solutions.

We were subsequently engaged 12 months later to review and report on the client's progress in moving to the new operating model.

Following the successful organisational redesign of its onshore production capacity, we then assisted in extending some of the outcomes to offshore production areas to drive accountability, standardisation and increased efficiency across the entire production division.

Data asset optimisation – making business intelligence work



Running any complex asset-intensive business requires full command over the organisation's information – across every division and department, at various levels of detail, and at different time horizons. This is what business intelligence (BI) and information management is all about – extracting, integrating and making sense of raw data and turning it into a valued asset that provides actionable insight.

Our data asset optimisation expertise focuses on aligning organisation's information strategy to broader business strategy and priorities, reviewing existing data asset landscapes, identifying opportunities for improvement and rationalisation, and implementing effective information management and BI solutions.



Case study

The client

To build the foundation for a successful data and performance driven business, we were engaged by our global oil and gas client, that was building a large-scale LNG facility, to deliver a BI enablement and foundation project, with a goal of developing a vision, strategy and a conceptual architecture for reporting and analytics.

The challenges

To track construction to completion, and to gear up for operations, the client was undertaking a number of major IT initiatives. This presented a range of challenges that included projects targeting data and information management running in parallel, a complex and rapidly evolving data asset and system landscape and a lack of organisational maturity resulting from its greenfield status.

How we helped

Delivering a suitable BI strategy and high level, five-year roadmap aligned with key business milestones involves people, process, governance and technology.

We identified and defined key information consumers, their information needs and information consumption preferences, assessed capability and fit of the client's existing technology toolset, and developed a conceptual solution technology architecture that highlighted key data assets supporting business requirements.

From a conceptual solution architecture we then developed a detailed architecture, and defined roles, responsibilities and structure of a reporting and analytics services team that enables sustainable and consistent BI 'business as usual' delivery.

Government incentives – co-investment for economic and community benefits



Governments, state and federal, recognise the importance of the energy sector from both an economic and wider societal standpoint. There are opportunities for the industry to partner with government to achieve objectives which are of benefit to both the industry itself and other key stakeholders.

We have a dedicated Grants and Incentives Team specialises in keeping abreast of government incentives which are applicable in the energy sector, and assists clients in accessing programs which support their business and wider community objectives.

For example, the Federal Governments' \$2.55 billion Emissions Reduction Fund (ERF) provides funding for emissions abatement and energy efficiency projects at most stages of the energy supply chain, from fugitive emissions abatement in mines, to the retrofit of energy generation processes and the retrofit of vehicles with fuel saving or alternative fuel technologies.

There is also substantial government funding for co-investments in regional infrastructure relating to energy projects under the National Stronger Regions Fund (NSRF), where the infrastructure produces co-benefits for regional economic growth and the generation of wider and lasting benefits for regional communities.

In certain circumstances state governments can also be approached to assist with discretionary funding and other facilitation in respect of large projects that are significant to state development.

For a business considering a project with an emission abatement or energy efficiency angle, or a project with a regional infrastructure requirement, there is good potential for government funding to support investment plans.



Case study

The client

An infrastructure client in a regional area had plans to invest in a new industrial precinct to expand its business and create significant employment growth in an area with limited employment opportunities. In addition to the on-site investments in new plant and equipment, the project had significant flow-on benefits to other regions and a range of industry sectors.

The challenge

The business case prepared by the client did not meet the required internal ROI threshold and assistance was needed to bridge the gap.

How we helped

We assisted by making the client aware of funding opportunities at a Federal, state and local government level. The client was introduced to key government, utility and community stakeholders, and Deloitte co-ordinated the necessary applications to government to obtain co-funding and community support for the infrastructure investments.

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