

Governing Energy

2008—Redux

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World petroleum markets have undergone commodity price shocks since these goods were first brought to market in quantity over one hundred and fifty years ago.ⁱ As part of the global recession of 2008, the price of oil fell from approximately \$145 per barrel to about \$40 before the end of that market-rattling year.ⁱⁱ A similar process is unfolding during the last quarter of 2014.

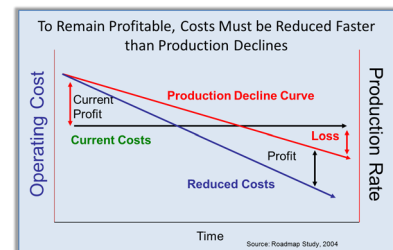
In the summer of 2014, West Texas Intermediate (WTI) crude oil traded at over \$105 per barrel. As late as October it was above \$90. By December, it hovered in the high \$50's per barrel.ⁱⁱⁱ

To some observers, this is a manipulated market and to others it is supply and demand driven. Regardless of the drivers, those economic actors in the market must deal with high volatility from time to time.

A rapidly falling market presents operations with significant challenges. The common mantra, “do more with less” can become gospel. How this message is delivered and subsequently implemented can be the difference between possibly a bad year and a terrible, career and/or company ending year.

Nothing changes in a down market except the commodity price point. Safety, the environment, performance requirements, regulations, etc. remain the same. However, managerial actions must change and decisions taken reflect the market realities.

Originally published in 2004, the decline curve graphic suggests that to remain profitable as a field ages, the costs of operations must decrease faster than the rate of production decline.^{iv} A dramatic, quick reduction in commodity price points essentially has the same economic effect of the field.



The focus on that study was the emerging (at the time) digital oilfield. However, modern producers use a basket of technologies to drive their business models.

Technology does make a difference. The perceived market glut is partly due to the use of technologies of all kinds including information technology. Enabling process change improved efficiencies and safer operations are well documented and have offered those organizations using them with a “*healthy buffer against failing prices.*”^v

Organizational Agility, Resilience and Sustainability are the hallmark of well-managed oil and gas operators and their energy services and manufacturing supply chain partners. Rapidly responding to

changing environments, whether market driven or in retort to an incident are the normal response of High Reliability Organizations. The protection of shareholder value demands no less.

As with any market downturn there will be winners and losers. Mergers and bankruptcies, a level of unemployment and local recessions are likely. Agile and resilient firms are best positioned for survival when the bust part of the business cycle is deep and fast.

Finally, as the saying goes, “we’ll be back.” ExxonMobil recently forecasts 35% higher global demand by 2040. The demographics of an expanding global population and desire for increased standards of living throughout all economies are substantial economic drivers.^{vi}

Yet one wonders, how many more boom-bust cycles will there be before then? Expect them and plan accordingly.

What is your organization’s Rapid Response Management plan?

About the Author

Dr. [Scott M. Shemwell](#) has over 30 years technical and executive management experience primarily in the energy sector. He is the author of four books and has written extensively about the field of operations management. Shemwell is the Managing Director of The Rapid Response Institute, a firm that focuses on providing its customers with solutions enabling operations excellence and regulatory compliance management. He has studied cultural interactions for more than 30 years--his dissertation; *Cross Cultural Negotiations Between Japanese and American Businessmen: A Systems Analysis (Exploratory Study)* is an early peer reviewed manuscript addressing the systemic structure of social relationships.

End Notes

ⁱ http://en.wikipedia.org/wiki/History_of_the_petroleum_industry_in_the_United_States

ⁱⁱ <http://www.rff.org/Publications/WPC/Pages/The-2008-Oil-Price-Shock-Markets-or-Mayhem.aspx>

ⁱⁱⁱ <http://www.businessinsider.com/oil-prices-drop-december-10-2014-12>

^{iv} Shemwell, Scott M. & Murphy, D. Paul. (2004, September). Roadmap to Enterprise Optimization: A Guide to the Impact of Information Driven Field Operations on the Petroleum Corporation. *Strategic Decision Sciences*. Authors. P. 110.

^v <http://www.houstonchronicle.com/business/energy/article/As-oil-prices-fall-companies-produce-more-for-5923956.php#/0>

^{vi} <http://www.ogj.com/articles/2014/12/exxonmobil-forecasts-35-higher-world-energy-demand-by-2040.html?cmpid=EnDailyDecember102014>