

Governing Energy

What Do We Do Now?

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The closing WTI (NYMEX) Price on June 17, 2016 was \$48.26 after closing above \$50 earlier in the month.ⁱ This is up substantially from market lows tested earlier this year and about where it was 12 months ago.

Moreover, there appear to be signs of increased drilling and hiring.ⁱⁱ Is the worst over, has the eye of the storm passed and is all behind us now? Or is just a tease?

When markets are in free fall, the strategy is easy or at least more identifiable. An old cartoon referred to a panicked investor chicken on the phone yelling, “the sky is falling” to which his stockbroker fowl at the other end says, “sell sky”!ⁱⁱⁱ

In late 2014 and 2015, this is what the industry did—sell, sell, sell! Now the view of the future is fuzzier.

Technology and other processes have reduced the production break-even point and majors are making comments regarding commitment to the Deepwater sector. Is this optimism warranted?^{iv}

For those tasked with leadership, assuring shareholder value is protected from further decay must now make the hard choices of what to do now. For those with strong balance sheets, this might be a time to make a few strategic choices.

For example, if one assumes the markets have already tested bottom distressed assets may be available. Moreover, drilling day rates are low and this might be the time to drill and “plug back” new wells and await their production until such time as the market is better. Another strategy is to do nothing.

For those with weak balance sheets, the options are limited. However, assuming a firm is no longer in survival mode there are ways to release value from their assets.

One of the current industry buzz words is Operational Excellence. As with all buzz words, the term is not well defined and has a number of meanings depending on one’s perspective.^v

That said, releasing the value in a balance sheet is one of the few tools left to management in this business cycle.^{vi} This author has quoted a McKinsey statement a number of times, “World-class operational execution can add up to 30 percent of value to the production asset base.”^{vii}

Attaining this is huge value to the shareholders and will help even those with weak balance sheets to pay down debt. Solutions exist to make this happen and are available at a cost effective manner.

Operations Management Systems (OMS) solutions are readily available to enable firms to achieve this substantial untapped value. Their implementation can help even the weakest firm stave off more

destruction of shareholder value and those with strong balance sheets will become even more dominate.^{viii}

What is your organization doing to Unlock Hidden Value in its Balance Sheet?

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 six books and has written extensively about the field of Operations Excellence. 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://www.nasdaq.com/markets/crude-oil.aspx>

ⁱⁱ <http://www.ogj.com/articles/2016/06/bhi-us-rig-count-up-6-in-second-straight-week-of-gains.html>

ⁱⁱⁱ Shemwell, Scott M. (2001). *The Markets are in Chaos! – Next Question?* Author.

^{iv} http://oilpro.com/post/25093/long-there-arent-more-surprises-oil-market-should-balanced-2h16-i?utm_source=DailyNewsletter&utm_medium=email&utm_campaign=newsletter&utm_term=2016-06-14&utm_content=Article_2_txt

^v https://en.wikipedia.org/wiki/Operational_excellence

^{vi} https://www.efma.com/ressources/studies/2012/1-SORAC_E_summary.pdf

^{vii} <http://www.mckinsey.com/industries/oil-and-gas/our-insights/this-is-the-time-to-deliver-on-upstream-operational-excellence>

^{viii} Shemwell, Scott M. (2016, April). *Achieving Operational Excellence: Capitalizing on the Cloud*. *Petroleum Africa Magazine*. pp. 32-34.