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Planning tool allows effective project slowdown, restart

As companies struggle through difficult financial times with reduced capital budgets, delayed projects, and reduced staff, they still need to spend capital, but in a more efficient manner.

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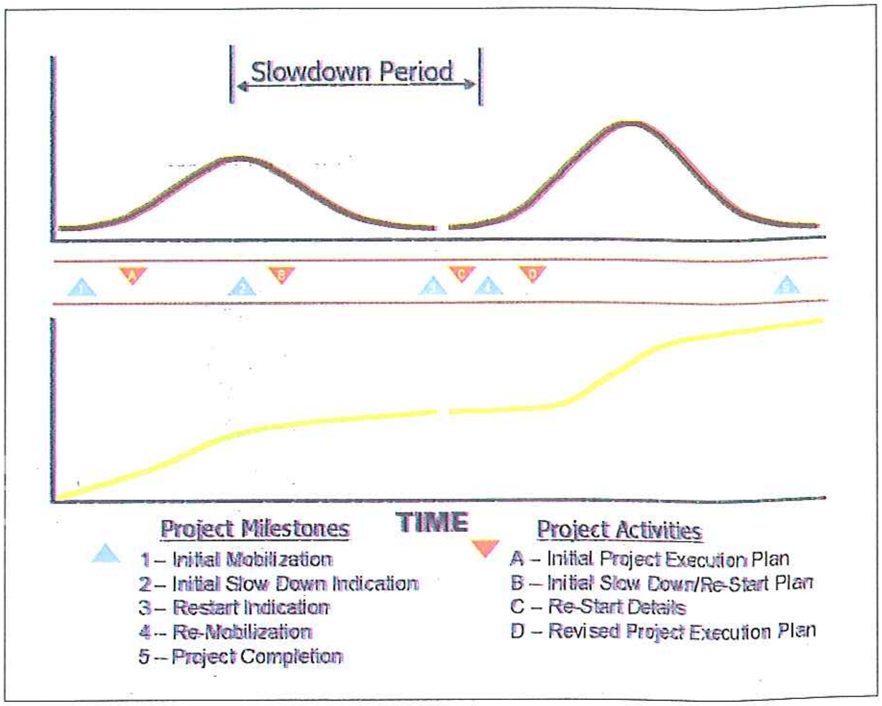
Project activity will recover as the economy recovers. Oil reserves are still in the ground, and demand continues to increase. When the resurgence in E&P activity takes place, companies need to be prepared to restart suspended projects. And to move forward efficiently, they need a plan.

Project slowdown, restart plan

The project slowdown, restart plan (PSRP) addresses projects that are being slowed or halted. In most cases, some project planning work has been completed, and resources have been invested to develop technical documents, plans, contracts, etc. This work should not go to waste.

In many cases, in the haste to rapidly minimize cost, companies shut off the value to the project. They lay people off and stop funding. Things end without a logical stopping point or preparation for an eventual restart of project activity. This is wasteful and improper stewardship of the company's funds.

A PSRP is as important to a company as a project execution plan (PEP). Without it, the project team flounders. The PSRP defines what the team should be doing and what the deadlines are. In addition to the information contained in the PEP, the PSRP includes:



To have value, a PSRP has to be developed before the team executing the initial project activities is reduced or demobilized. (Image courtesy of Pathfinder LLC)

- Project slowdown reasoning. What project, company, marketplace issues have caused the project to slow?
- Restart timing expectations/assumptions. Based on information available, what is the expected ramp-up or restart time?
- Slowdown/restart schedule. Based on the ramp-up or restart expectations, what is the schedule to slow down the project and effectively reestablish traction to achieve the targeted completion date?
- Contract strategy. In most cases, contracts have been awarded for support services and possibly purchases. How will these be addressed to maximize the benefit to the company?
- Resource retention plan. What is the strategy to retain the resources of the team and/or assure that they are available at restart?
- Capital reduction strategy. How will the project team minimize expenditure of non-value added capital spending during the slowdown?

Laying the foundation for recovery

Chevron Corp., with a capital program of more than US $22 billion in 2009, has carried out a formal reevaluation of all of the company's projects, reviewing the economics underlying them. Other factors that come into play when evaluating a project's strength in Chevron's portfolio include partner drivers and corporate strategic objectives as well as internal budget constraints.

Joint venture partners such as national oil companies (NOCs) and other international oil companies (IOCs) have their own drivers to consider, such as budget cuts, criteria for project viability, or even regulatory guidelines or production targets. When partners pull back on projects, the operator often has no other choice but to go along. And when Chevron deems a project unviable, its partner might want to proceed.

Corporate strategic objectives and associated project milestones must be balanced with the new economic scenario. Criteria such as replenishing reserves and supply obligations must be considered. And delaying project activities for potential reductions in cost of goods sold (COGS) needs to be carefully evaluated. Corporate budget cuts also can affect project viability.

Identifying the appropriate criteria and establishing tradeoffs for evaluating projects is much more effective than following knee-jerk reactions to economic conditions.

When to initiate the plan

Once a project is reinitiated, a revised plan is required. What most organizations fail to realize is that there are missed opportunities for capturing the full value of work accomplished before the slowdown. A PSRP needs to be developed before the reduction or demobilization of the team so this value can be regained.

The PSRP is initiated as soon as the slowdown is announced and is fully in place when the project team is pulled from the project. The PSRP becomes the basis for establishing the revised PEP when the project is reauthorized and the team begins remobilization.

The project team needs to strategize what it would like to retain and have easily retrievable when the project is re-authorized. The team can decide how key team members will be retained, and it can make decisions about whether materials/equipment will be maintained, shared, or sold to other projects.

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At Chevron, once the decision is made to place a project on hold, clear objectives are established for the near term, and in some cases signposts are defined for its restart.

The effects of the slowdown on cost and schedule must be clearly understood and expectations defined. Then these expectations and signposts must be clearly documented in an updated PEP and communicated to the project team and key stakeholders. The updated PEP also must address issues of de-staffing and re-staffing

Project status can influence which strategies will be effective in reducing capital costs. These include project phase, award of contracts, and technology issues. Project cash flow constraints or slowdowns can adversely affect capital costs and schedule and erode project net present value. Fortunately for IOCs, the current slowdown has also seen a noticeable reduction in COGS. In some sectors of the oil and gas industry, costs have dropped to 2005 levels.

The challenge for project teams is to identify areas where cost savings can be most beneficial during the slowdown. Not all oil and gas service sectors have been impacted in the same way. While reductions in design labor costs, shipping costs, and bulk materials might be available, other sectors such as engineered equipment or deepwater rigs appear to be more resilient.

Projects that are in pre-front-end engineering and design (FEED) or FEED phases offer more cost-savings opportunities. At Chevron, typical activities in these phases include reevaluating scope, considering different contracting strategies, seeking NOC partner concessions, and reconsidering the order of long-lead equipment.

Since the horizon for the current global economic downturn is perceived to be within the next six months, each of these activities should be clearly laid out and planned in the updated PEP for prompt action. In cases where FEED contracts have been awarded or long-lead equipment orders placed, the project team must consider what opportunities exist for re-negotiating the prices or delaying the deliverables.

Projects in the execution phase offer more challenges. While cost-savings opportunities can be much larger than those for projects in earlier phases, capturing those savings is more difficult. In situations where design, purchase, fabrication, or field contracts have not been awarded, internal evaluation and strategies must be developed to identify areas for cost savings that warrant potential delay of award.

Particular project technologies also can be a consideration in the benefits of drawing out pre-FEED or FEED activities. In cases where subsea technologies or qualification of new technologies are needed, the slowdown can be a benefit.

One of the most significant challenges for project slowdown or restart is staffing the project leadership team (PLT). Changing the PLT can significantly affect the project schedule. For this reason, Chevron has carefully considered project staffing during the current slowdown. During a slowdown or project recycle, the PLT can be kept intact to lead the recycle efforts and be ready for authorization to proceed to the next phase. Where this is not necessary or when projects are stopped, the PLT can be reassigned but kept within the company. One thing Chevron has not done during the current economic situation is reduce its project management roll. History has shown how damaging that can be, especially when activity resumes at a rapid pace.

Interfacing with the PEP

One of the first project management deliverables required when the economy picks up is the revised PEP. If planned well, the PSRP defines the level of completeness of the original project documentation, the desired resources to efficiently reinstitute the planning and execution effort, the cost incurred to date, and the expectations for the level of effort required to complete the project. This forms the basis for the revised PEP. The PSRP is useful in providing the communication required between what was done and what remains to be completed.

At Chevron, when the PEP is updated, it includes all aspects of the project slowdown or restart plan. The slowdown or restart plan includes project staffing plans, revised contracting strategies, identified criteria for restart, and an updated schedule with expected restart timing.

Considered crucial to this restart effort is a transitional kick-off workshop. In this meeting among the PLT, project team members, key decision makers, and stakeholders, the project frame is revisited, key assumptions reviewed, and alignment gained on the restart plan with milestones identified.

Although not perfect, the PSRP helps minimize wasted effort in stopping projects and assist in restarting the project.

As the economy improves, companies that have addressed this slowdown planning issue effectively will be in a better position to quickly capture the benefits of these value-added capital investments and gain an increased market share in the industries they serve. E&P