



Look Before You Leap

AS THE OLD SAYING GOES. LUCKILY, OUR CLIENT DECIDED TO HEED THIS TIME-HONOURED ADVICE BEFORE MAKING A FINAL INVESTMENT DECISION.



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A junior field operator was almost at approval stage for development of a new field off the north coast of Scotland. It was exactly the kind of venture the UK Oil and Gas Authority considered critical to the future of the North Sea industry. The project, estimated to cost around \$1bn, had great potential, but the private equity investors were anxious. Despite their technical brilliance the operator's leaders were struggling to manage the project. If something wasn't done quickly the whole mission could fail.

The phone rang at Epeus HQ. It was the investors. Our brief: to investigate the project thoroughly and make recommendations. How rigorous was the operator's field development plan? Had all the risks been fully explored? How motivated was the workforce? Unsure what we would find, we mobilised a heavyweight team packed with industry, project management and technical expertise, and made contact with the operator's senior executives.

It was a high-stakes scenario and, of course, investors can do what they want. But parachuting into an ongoing project we knew we might be seen as the enemy. Scrutiny of this kind could convey a lack of belief and create tension. For the review to be a success we needed the operator to embrace the exercise, not resist it.

Thankfully, we're used to being in tight spots like this. From the beginning we worked hard to build consensus. Our approach was based on complete transparency. We weren't hoping to find anything bad. There was only one objective—to improve. Rather than point fingers we asked, "What can we do to make sure this project is a success?"

Our first move was to look for gaps. We wanted to understand how the project had been set up and what its strengths and weaknesses were. We did an independent risk assessment based on the investors' description of the project. This allowed us to quickly gain useful insights and set a benchmark to help structure our investigation. Then we moved in to discover the reality on the ground. Once trust was established, we had the support of the management team and full access to confidential project information. We spent three weeks interviewing everyone at the operator, from the COO and CEO down.

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A mixed picture emerged. From an engineering perspective, the project was sound. The project's leaders were extremely experienced, technically, and had achieved a high level of readiness in a short space of time. Quicker, we thought, than a larger operator would have managed. Their team was compact, skilled and unburdened by complex decision-making processes. But, we soon realised, engineering challenges had been

prioritised at the expense of other vital considerations.

Ventures like this don't usually break down due to technical issues. Project management is more often where the difficulty lies. So it was in this case. Perhaps surprisingly, regulators had given positive feedback, but meeting minimum standards was not enough to reassure the investors. Digging deeper we discovered a catalogue of issues. Risks had not been fully divulged. There was no clear project management strategy (or at least it had not been written down or shared). And the wider team was doubtful about the project's chances of success. Clearly, the situation was grave.

So what?

The investors had included the standard 10% contingency in their budget. That was a serious underestimate. We were able to quantify the risk more accurately; an additional \$150m of overruns if improvements weren't made. We created an opportunity for frank discussions between the operator and its investors, and the means to prevent the project incurring massive extra costs. Knowing we had their best interests at heart, the operator engaged with the review process and our report was well received.

The seriousness of our findings prompted a swift response and the operator recruited project managers to make certain things ran smoothly. In the end, our objective opinion and expertise helped both the operator and its investors to move forward with renewed confidence.