2010 DAAG Conference

ConocoPhillips’ journey to full quantitative assessment of project cost and schedule

Paul McNutt, Manager Project Risk & Reviews
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OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

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Agenda and Messages

• Agenda
  - The Challenge
    • Embedding Quantitative Risk Assessments in an emerging Project Development Organization
  - The Path
    • The People, Processes, and Tools required to enact positive change
  - The Result
    • Impact on Cost and Schedule Predictability

• Take-away Messages
  - We have fundamentally restructured how risk is quantified and communicated to senior management
  - The central document is the Contingency Breakdown Report. It is a commitment between the Project Team and Senior Management
The ConocoPhillips Way

SAFE

We will not compromise on our commitment to execute projects safely and deliver operating assets that are safe for people and for the environment.

TRANSPARENT

We will openly and frequently communicate project status, priority risks, and issues.

PREDICTABLE

We will consistently deliver on our promised AFD and AFE targets. We will consistently deliver operability at or above the AFE target.

COMPETITIVE

We will consistently deliver competitive projects from a safety, cost, schedule, and quality perspective that outperform our industry peers.
Project Portfolio Radar View Dec 2009

Define (Net $):
- Tier 1: <$75M
- Tier 2: >$75M – <250M
- Tier 3: >250M – <1B
- Tier 4: >1B

Data Date: Dec 09   Print Date: Jan 10
Project Presence Across the World

Data from eReport Sep/09

ConocoPhillips
Project Development

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We are ~1800 people managing a $108 B net portfolio with an annual capital spend of $4-8 B net.

Trends for 2010-2012 include:
- Replacing contractors with employees
- Enhance the COP-way
- Gain transparency and predictability
- Central organization at steady state
- The toolkit largely built, limit changes
- Focus on quality implementation
- Charles Rivers validated pathforward
- New and challenging opportunities
- Average project size is increasing
- New country entry (Abu Dhabi, KSA)
- Largest ever operated in existing BUs (Surmont 2, APLNG)
Project Risk and Reviews enable transparent communication and improve project predictability

2007 to 2009

**Risk Management**
- Risk Register 1.0 then 2.0
- Contingency Breakdown Report established 2008
- Contingency Drawdown 2009

**Engagements & Reviews**
- Engagement Process and Planning established 2008
- AFF review dropped and fit-for-purpose reviews emphasized
- Legends Program started

**People and Training**
- Central team of 4 risk specialists and 4 Upstream BU specialists established
- Central engagement manager team of 6 established, roles defined and codified

2010

**Risk Management**
- Emphasize execution risk management with coordinators
- Introduce management reserve and stretch targets

**Engagements & Reviews**
- Enhance Engagement Plan quality, depth, and coverage
- Formalize review framework
- Expand Legends and define role versus consultant

**People and Training**
- Expand training to teams through Capstone (PDC), online aids, and thorough Standards and Procedures
- Enable risk coordinators on projects

2011+

**Risk Management**
- Thorough post audits complete the cycle on projects risked in FEED
- Expansion to project drilling and portfolio-level risking

**Engagements & Reviews**
- Reviews are inclusive of partners
- Seamless integration with PAG and other corporate functions

**People and Training**
- Best project engineers are rotating through coordinator and specialist roles
- Best project managers are rotating through as engagement managers
Cost build-up illustration and definitions

P50 Total Installed Cost*

Drilling Cost (if applicable)

Contingency
(Sum of Uncertainties)

Schedule Risk Events
Cost Risk Events
Estimate Variance

Facility Cost
Estimate Premise

Management Reserve
(Sum of Risk Events)

Stretch Target
(Premise plus Variance)

P50 Facilities Installed Cost
(Stretch Target plus Management Reserve)

Project Development Manages FIC for projects >$75 MM net

*All cost elements include associated escalation

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Contingency Breakdown Report (CBR) is the transparent “contract”

<table>
<thead>
<tr>
<th>Estimate Breakdown and Cost Variance</th>
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<tbody>
<tr>
<td>Cost Risk Events</td>
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<tr>
<td>Schedule Variance and Risk Events</td>
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<tr>
<td>Escalation Scenarios</td>
</tr>
<tr>
<td>Summary</td>
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</tbody>
</table>

- **Project Description**
- **Explanatory Notes**
- **Foreign Exchange Sensitivity**
- **Excluded Risks**
Risk Management Interfaces

- Risk Model
- Quantified Risk Details
- Risk Register
- eReporting
- Contingency
- Risk Register
- Modeling Results
- EPMS
- Drawdown Chart
- Risk Register
- Progress Curve

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The result of changes to date is that project performance is improving significantly.

According to Charles Rivers Associates:

“ConocoPhillips’ Project Development Organization is on the right path to effectively support world class project delivery”

Data is averaged on a cost-weighted basis for projects greater than $75 MM net.
Back-up Slides
As expected, the data show a tendency for contingency to decline over stage gates.

\[ y = -0.027x + 0.248 \]
## Risk Category Definitions

<table>
<thead>
<tr>
<th>Strategic</th>
<th>Tactical</th>
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</thead>
<tbody>
<tr>
<td>less tangible</td>
<td>tangible</td>
</tr>
<tr>
<td>Harder to quantify</td>
<td>Easier to quantify</td>
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</tbody>
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### Organizational

**Definition**

“Degree of complexity”

What people, processes, or tools do we lack to successfully execute the project?

**Examples:**
- Team selection, change management, processes and procedures

### Stakeholder

**Definition**

“Degree of control”

Who influences our project outcomes?

**Examples:**
- Partner misalignment, permit delays

### Technical

**Definition**

“Degree of difficulty”

How difficult is it to complete the project?

**Examples:**
- Arctic conditions, pipe corrosion

### Tactical

**Definition**

“Degree of readiness”

What are we building? How ready are we?

**Examples:**
- Scope defined, contracts, onshore/offshore

### Internal

### External
The percent of total number of uncertainties identified by type has remained quite stable across time periods.
The percent of total risk event impact has changed, but changes in the project slates and small sample sizes make drawing conclusions difficult.