

Plugging Asset Money Leaks

Controlling the costs of controllable assets

Curtis Blair, CSP, CPPA

Have you performed a leak test on your company's controllable assets? Do you redeploy existing Idle or Surplus equipment before buying new equipment? Are you paying the correct amount for property taxes and boilers branch registration fees? If you answered *no*—or worse—*I don't know* to these questions, your company is likely leaking cash. How much cash is leaking depends upon the internal processes and policies in your organization.

Many organizations are still following the ancient Spreadsheet Rule: *If it's not on one of these spreadsheets, it doesn't exist.* Spreadsheets are a dysfunctional method of tracking assets and the reasons are many; not all stakeholders have access, no uniform process in place to keep them updated, no standardized naming conventions, not enough information, no way to attach pictures, manuals, drawings, performance curves, etc.—the list goes on and on. Yet many organizations are still using spreadsheets.

However, innovative organizations are embracing best practices and are using a secure, web-based asset management and inventory control system that helps identify, track and manage their assets, enabling them to save time and money. They have comprehensive information about assets they own; they know exactly how much they are paying for property taxes and provincial sales taxes, and are able to defend or contest assessed tax amounts; they can perform integrity management functions; they are able to actively manage their assets and expenses; and they are able to get production on sooner.

If your company is not tracking assets or is, still using spreadsheets to track your assets, the first step is to understand where your asset money is leaking out. The top 5 leaks that will save you the most money, generate cash for your organization, and reduce your time to production are:

Leak #1: Buying new assets instead of redeploying existing Idle or Surplus assets.

Idle or Surplus oil & gas equipment won't help you if you don't know you own it, where it is or its' condition. Over time equipment records get misplaced, lost, destroyed, or forgotten as organizations move their offices, consolidate departments, change their structure and mandate, or buy other organizations, fields, facilities, wells, etc. You need a thorough and complete asset-centric database that includes all your controllable above ground assets. And this database needs to be a complete accounting of all your equipment. It needs to be secure and protected so that only authorized users can make changes. This database is invaluable for matching specific field conditions to your Idle and Surplus equipment's technical specifications, so you can quickly locate and redeploy the right piece of equipment for the job, instead of buying new. Once your equipment is properly inventoried and catalogued it is common to find up to 15 percent of your total equipment inventory available for redeployment or disposition.

Leak #2: Failing to convert surplus assets into CASH.

Monetizing assets that don't generate revenue for your organization is an excellent way to generate cash. Sell the assets if you have no plans to use them; they don't appreciate in value over time. Worse yet, they may be costing you money for financing, maintenance, storage, property tax, boilers branch registration fees, condition downgrading, etc.; as well as the lost opportunity cost.

Leak #3: Inaccurate boilers branch, insurance, property tax, and BC and SK provincial tax information.

The tax and financial implications of Idle and Surplus equipment are significant. A thorough equipment inventory, fair market valuations based on Petroleum Accountants Society of Canada (PASC) guidelines and a web-based asset management inventory control system will help find ways to ensure you're no longer paying provincial boilers branch fees on equipment you no longer own or taxes on equipment that's not generating revenue. You will also know the proper value of your equipment, backed up by asset records and photographs to ensure correct insurance coverage.

Leak #4: Lack of fixed asset identification and valuation.

When you sell properties, don't give away assets you didn't know existed. Once the inventory data is entered into a web-based asset management inventory control system, using PASC's pricing catalogue, the valuations are consistent and defensible for joint venture accounting, asset retirement obligations, and insurance and property tax purposes. If the system also automatically notifies you when equipment needs an inspection and provides an audit trail for Sarbanes-Oxley (SOX) and International Financial Reporting Standards (IFRS) compliance, even better. Have a professional, experienced, third-party auditor review your well list and equipment spreadsheets, visit each well you operate, each battery, plant, boneyard and vendor yard. And don't accept yet another spreadsheet of information; keep your database relevant and current by having it uploaded into an asset management inventory control system database.

Leak #5: Ignoring equipment and material balancing upon completion or cancellation of projects.

Most organizations have processes for buying equipment and materials, but not for returning, redeploying or selling items no longer required. The equipment and materials are quickly forgotten and the organization realizes no value for them. Equipment and materials legacy issues are "personnel" oriented in that, the buyer—engineer technologist or other company/third party individual—is often the only keeper of this information. So your organization is depending on someone's memory or individual spreadsheet to recall that there may be Surplus or Idle equipment that could be used for the next project. In larger organizations, surplus and overstock items simply move from one project to the next, often comprising significant sums of money that may or may not be actually represented by equipment or materials.

The solution to plugging these leaks?

The next step is to do something about it. Start by knowing what you have and where it is. Throw away your spreadsheets, unrelated and antiquated databases and guesswork and have all your physical assets professionally identified, photographed, inventoried, evaluated, catalogued and valued by experienced oil & gas personnel. They should visit all necessary field, vendor and contractor sites, take digital photographs of the equipment, and using comprehensive datasheets, undertake a complete physical inventory of all your surplus controllable material, including assessing the condition of each asset using PASC Material Condition Guidelines. And while you're at it, have a Wellsite Condition Report created for all your well sites.

Then have the records uploaded into a secure, user-friendly web-based inventory management system specifically designed for oil & gas equipment, to help your employees locate, redeploy and track the movement of your production equipment online 24/7, from anywhere they can access the Internet. You'll know what's active, idle, rented and surplus – enabling you to quickly redeploy equipment where it's needed. You will also be able to identify and monetize the assets that don't generate revenue.

While you are at it, ensure all the pertinent information about the assets is electronically attached to their records (invoices, maintenance performed, QA/QC documents, drawings, digital pictures, etc.) so you know where the information is, no matter who takes over responsibility for the asset. And make sure the database is searchable with just a few keystrokes and that users can create detailed reports on your equipment using any number of characteristics. These reports are invaluable for matching your equipment's technical specifications to specific field conditions, so you can quickly locate and redeploy the right piece of equipment for the job. Reports are also used for fixed asset accounting, property tax avoidance, pressure vessel compliance and surplus disposition.

To help other departments do their jobs, make sure the database information is easily accessible by your employees and consultants who deal with property tax; insurance; procurement & asset management; health, safety and environment, construction, operations and production; training; emissions reporting, accounting and finance; corporate development; and others. Insist that the system is searchable by a variety of parameters, i.e., area, property, LSD, yards, facilities, working interest, cost centre, equipment condition and type, status, GL code, A#, CRN#, etc. As well, they system should be robust enough to generate a wide variety of reports to take advantage of the comprehensive inventory listing information gathered by the field auditors.

Finally, ensure they system includes an integrated material transfer method to easily transfer assets between locations and for external dispositions.

If this field inventory and asset management inventory control system project is completed properly, the leaks will be fixed and the investment payback will be very short; after that, it's all found revenue, and you also have complete and accurate data—vital for creating and quickly capitalizing on opportunities.

Curtis Blair is Vice President of Sales & Marketing for International Oilfield Equipment Brokers Ltd., a subsidiary of International Oilfield Management Services Ltd., and has been involved with asset sourcing, management and disposition for over 15 years. Curtis can be reached at phone: 403-299-2244, or email: cblair@ioeb.ca. www.oilfieldequipment.com. For a hands-on demonstration of our web-based Asset Management Inventory Control System (AMICS) software (www.amics.ca), please call 403-299-2244 or email: cblair@ioeb.ca.