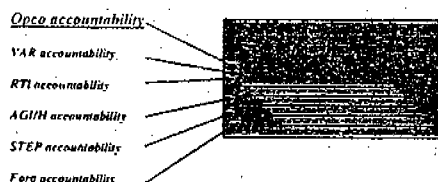


Once ranking had been done a resource and (bottom line) deliverable plan will be compiled thereby harnessing resources across E&P to achieve maximum gains.

*The plan drives the organisation  
Via accountabilities for activity*



Much of the work in the plan would be normal Opco business, other work will require expertise not available in the Opcos and would be achieved via assists and (Shell) consultant input. Or, for large projects indeed by multi Opco teams delivering a service from Opco to Opco, excelling in both learning curve and speed of application.

Underlying operational performance will be a set of minimum operational work standards. This is nothing new in the sense that no standards need to be invented (they all exist) however it is felt necessary that in order to avoid major downsides in performance, minimum standards need to be in place and strictly adhered to. Examples would be minimum data requirements for well potential management and integrity management, minimum documentation and contents for FDP's and/or ARPs and so on. Today's extensive list of (informal) "best practices" would be replaced by a much simplified structure for the user and ONE Shell stamped best practice will be at the top of the list.

It is foreseen that the various Fora will have a pivotal role to play in defining both minimum standards and best practices.

## 2c) Management of Cost structures

There are 3 areas covered under this title:

- Application of Best Practices to reduce core EP operating costs.
- Review of Cost reporting and delineation.
- Cost structures associated with our Opcos and Head Offices.

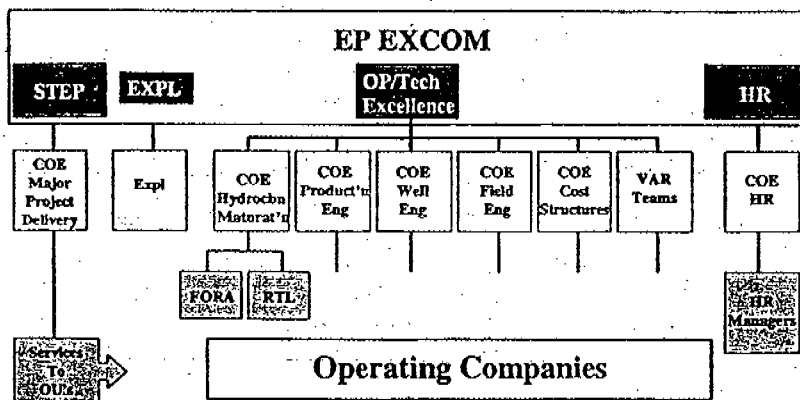
The first is a well known and established process in all operating units of improving operational performance. The second and third areas are less well known. The second is the more pragmatic and meaningful definition of "underlying" costs. The principal being that there are "good" costs and "other" costs. Good costs being those that for example generate additional production and are variable.

"Other" costs are necessary to run any business, such as daily running costs, and tend to be largely fixed. The third area is much more fundamental and looks at the way we run our companies in terms of services and overheads. Every (mature) operating company is structured to handle almost 100% of situations on a stand alone basis. The question has to be asked as to whether a different "Opco Model" with shared (regional) services and on line specialist expertise isn't a more sustainable way ahead.

### 3. Organisation and Staffing

The T&OE organization will be set up as a set of Centres of Excellence together with the VAR and Cost Structures team as additional units.

#### T&OE Structure



Each COE will broadly represent a "conventional" part of the EP process (Hydrocarbon Maturation, Wells etc) and each be headed by an activity leader, who will double hat as a discipline manager. Each discipline within that process (Res Eng, Petrophysics) is represented by an individual staff member representing that discipline (see appendix 1):

#### T&OE Disciplines

<i>Hydrocarbon Maturation</i>	<i>Facilities Delivery</i>	<i>Production Engineering</i>	<i>Wells</i>
Geosciences Reservoir Eng Petrophysics	Process Eng Project Mgt Discipline Eng	Production Tech Operations Maintenance	Well Engineering Well Services

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The Activity leaders will lead and chair the respective global forum. Reporting directly to each COE will be the RTL teams.

The structure as defined is positive in the sense that it fits well with staff/skills management processes. Its drawback is however that it does not fit so well with the Operational improvement processes. The RTI teams have clearly identified that they have to work together as "cross discipline" teams in order to deliver "limit" performance. The Fora, presently based on contiguous sections of the EP process are well suited when it comes to agreeing best practices, competencies and minimum standards but do not fit so well with the concept of concentrating effort on "big ticket items" (eg an EP wide drive on water flood to significantly improve recovery factors). In the latter case one could propose a Forum on Water flooding but that approach would require a multitude of ever changing Fora.

Job groups of discipline leader staff in the COE's would be A/B, where one suggestion was that the incumbent would be an "A" if he were Shell renowned for his technical expertise and a "B" if he were internationally renowned. Activity leaders will be nominally at the "B" level. This (apart from the Job Evaluation outcome) to encourage technical staff that there is headroom and associated career in the Technical disciplines.

#### 4. Next Steps and Timetable

During the set up phase of T&OE there are some key activities that must be performed. Below is a status review of these activities:

- Staffing T&OE.
  - *Status – Resourcing completed (see appendix 1)*
- Staffing RTI Groups (NB the incumbents were asked to do the RTI job for 2 years because of the demanding programme; the 2 years is up this Summer).
  - *Status: Ongoing via OR (initially disappointing results but now picking up).*
- Set up and activate a communications Plan. Key date is the official launch of the T&OE group at the SCI conference in March.
  - *Status: Conference held, considered very successful. Communications plan in development.*
- Begin the process of compiling the Opco Opportunity Sheets
  - *Status: Ongoing. 80 opportunities Identified. Data quality problematic.*

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- Based on Opco opportunity sheets compile the execution plan and assign resources
  - *Status: Not yet started but potential around reserves maturation growing continuously.*
  - *2002 reserves booking potential on global basis – data ready end May*
  - *Longer term reserves maturation funnel on global basis – data compiled September 2002.*
- Definition of minimum standards
  - *Target first cut at May EPLF*
- Generate “job descriptions and accountabilities” for the Fora.
  - *Status: Just started*
- Finalise TOR’s and staff up “Cost FRD” for Q2.
  - *Status: FRD underway. Initial findings at May EPLF.*
- Define Interfaces with HR and EPP (major project delivery group)
  - *Ongoing, largely complete*
- Deliver competency system by May EPLF
  - *Will be presented by HR at May EPLF*
- Begin process of gathering staff (by Discipline) data from centre/opcos
  - *Just started*

Brian Ward  
EPG  
01/05/02

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Appendix 1

## Staff Appointments to T&amp;OE:

Function	Activity Leader	Discipline Leaders
Reserves/Maturation	Jim Chapman	Prod. Geology Reservoir Eng. Petrophysics Jim Chapman Lim Min Teong Hans de Waal
Wells	Sjoerd Brouwer	Well Eng. Well Services Sjoerd Brouwer George Beesley
Facilities	Hans Erlings	Project Mgmt Process Eng. Field Eng. Disc. Hans Erlings Jim Marshall Leo van der Aar
Production	Thomas Helmer	Surface Prod. Eng. Maint./Integrity Eng. Sub Surf. Prod & Fluids Eng. Thomas Helmer Mike Clubb Bob Turner
Costs	John Bell*	Cost structures Costs John Bell Adam Lomas
Exploration	Andy Wood**	Geophysicists Ad van der Schoot

\* Deputy T&amp;OE Leader

\*\* Reports directly to Matthias Eichsel

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## EP Projects

## Organisational Design Status &amp; Implementation Plan

Introduction

Realisation of E&P oil and gas production growth targets over the coming five to ten years will critically depend on the secure delivery of a number of major projects, on time, within budget and with performance in line with predictions.

In October last year, a dedicated (mini-FRD) team was commissioned to address this issue. Following consultation with project management experts across EP (and OP), the team recommended the early creation of a Centre of Excellence for EP Projects as the preferred route to ensure consistent, high quality project delivery. The business case for this initiative stems from the general pattern of historical under performance on project delivery (captured in the OU Volume 1 returns) and the growing awareness of the critical shortage of professional engineering resources and the fact that the EP project engineering skill base is going to remain (human) resource constrained over the short term. Failure to turn this around in the immediate term will seriously jeopardise future EP growth targets.

The purpose of this note is to provide EPLF attendees with a summary of the progress achieved to date on the design and establishment of a professional, global EP Projects organisation that aims to provide a competitive advantage for the Group in the spheres of Project Engineering and Project Management. EPLF endorsement of the organisation design, initial and future project portfolio, EP Projects Approach to Customer and Stakeholder Management and the Organisation Transition and Project Portfolio Implementation Plan will be sought following the EPLF presentation on these matters on May 23<sup>rd</sup> 2002.

Objective

The goal is to design and create a professional EP Projects organisation that will provide a competitive advantage for the Group by building on and utilising the existing capabilities, processes, design and project management tools operating within SDS/DE and complementing these with existing capabilities from within EP Operating Units, SGSI and other best practices emerging from ongoing global initiatives and recently completed successful projects.

EP Projects will thus comprise a global organisation (based in Rijswijk, Houston and New Orleans) with immediate responsibility for the existing global deepwater project portfolio and, in accordance with the Excom mandate, with future responsibility for all other major projects being matured across the globe. EP Projects will provide the full range of engineering, project management and new technology application skills and services to Shell EP OU customers to frame, plan and execute major projects onshore, on the shelf and in deep water. EP Projects will have in-house skills and tools for engineering, project management and services, development of new technical solutions and creation and maintenance of standard "catalogue" and "backbone" systems. Its key objective is to achieve an assured and repeated delivery of projects that meet investment objectives and demonstrate continually improving project delivery benchmarks that puts Shell's major project delivery record at the leading edge internationally. Towards this end, it will develop and use standard and proven engineering systems, maintain global engineering contractor and project management staff databases and manage effective learning and leveraging of knowledge in successive projects. To ensure best EP life cycle value, it will co-ordinate its work with the functions (outside EP Projects) that are responsible for exploration, field development planning, well delivery and with production operations and surveillance. Close co-operation with and support from the new "Technical & Operational Excellence" units and EP-HR will be essential to realise EP Projects' aspirations and goals.

Methodology

An Organisational Design Team was established in February 2002 and was tasked with developing and pursuing a clear statement of work and developing an implementation plan, budget, resourcing plan, stakeholder engagement plan, communications and road show plan and schedule of status meetings to build enthusiasm and put Project Management "back on the map globally". The target launch date of the new organisation is 1<sup>st</sup> July 2002.

The design of the new organisation has been developed by the Team, which incorporates staff from SDS/DE, SGSI, experienced project staff as well as future customer representatives. The timing and manner of the

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transfer of responsibility for ongoing projects to EP Projects is the subject of ongoing detailed work by the design team and the current project execution team on the target portfolio of projects.

In so doing, the Team has completed a thorough review of the approach taken to create the SDDSI Project Execution organisation in 1997 and, subsequently the Project Execution arm of SDS when it was created in July 1999. It has assessed the degree to which it could be laterally applied/extrapolated to design the EP Projects organisation covering the full spectrum of onshore and offshore projects that are being developed and matured across the globe in their respective environments, particularly new venture locations. The Team has endeavoured to capture all learnings obtained from this approach and to complement them as necessary to provide a robust foundation upon which the new organisation can be built, launched and operated with an energised and empowered, winning professional spirit.

In addition, the current arrangements under which SGSI and SDS/DE provides engineering services to the EP business have been reviewed and pragmatic and cost effective ways to enable the Global EP Projects organisation to access these skills and experience are being developed so as to result in maximum competitive advantage.

The work completed by the Organisational Design Team to date can be summarised as follows:

- EP Projects launch and Organisational Design Team formed with agreed Terms of Reference
- Extensive interviews conducted with EP, OG and key OU project staff.
- Extensive review and evaluation of current and future project portfolio.
- Organisational design options and project portfolio developed and tested with EP and OG stakeholders in both the US and NL.
- Interface with T&OE established; alignment of accountabilities agreed
- Consultation and communication ongoing with all major stakeholders including OGNL and SIEP Staff Councils.
- Commitment to office space in Rijswijk, Volmerlaan 7.
- Organisational Strategy & Structural Design endorsed by Excom on April 26<sup>th</sup>.
- Detailed Design, Staffing & Transition Planning ongoing.

#### The Vision

##### EP Projects: The Vision

- We are a professional global project management and engineering community that creates and delivers unparalleled value to Shell Group E&P Projects around the world.
- We ensure value creation by harnessing and leveraging all of the required resources to consistently deliver our E&P projects in accordance with our promises.
- Our foundation is a critical mass of talented individuals working in a rewarding and winning environment that enables them to realise their full potential.

#### Design Principles

The design principles, which underpin the new organisation, are summarised below:

- The organisational foundation is the SDS-DE model
- Creation of a global projects culture and behaviour
- Organisation will comprise all skills and competencies that deliver projects
- Standard processes & Systemic learning paramount
- OU and project delivery team alignment essential
- Management of the entire Project life cycle is imperative.
- Need to recognise local conditions, behave and organise accordingly

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**Organisational Design**

The proposed EPT-P organisational design was presented to and endorsed by EP Excom on April 26<sup>th</sup> 2002. The organisational structure is shown on Figure 1 attached.

**Organisational Design Considerations**

In developing the organisational design, a number of key considerations have been debated and discussed. These issues and the manner in which they are proposed to be resolved are discussed briefly below.

**i) The Role of EP Projects in Project Maturation and Realisation**

Whilst EP has very clear guidelines and processes in place to value assure projects via the VAR 1-5 process as they evolve through the maturation funnel, there is a distinct lack of clarity with respect to ownership and transition from exploration to appraisal and development planning to project delivery while maintaining the venture and project delivery promise. Furthermore, whilst the discipline and control in ensuring that projects are screened from VAR 1 to VAR 4, there is no framework in place to ensure and check project delivery between VAR 4 and VAR 5 – the phase in any project's life where the consequences of change and potential for loss in value is, and has been painfully proven to be, greatest. For these reasons, it is proposed to appoint EP Projects Project Managers on all projects as they pass VAR 2 and to retain an EP Projects involvement in the processing and stewarding of the Project as it evolves through the maturation funnel towards the delivery of the project promise until VAR 5 has been accomplished (the roles and accountabilities of the Project Manager during this evolution phase will be agreed in the Project Manager's "Charter" described below). Furthermore, it is proposed to develop and initiate a process of regular and structured project reviews throughout the critical period of project execution between VAR 4 and VAR 5 and to endeavour to identify and correct potential "train wrecks" well in advance of their actual occurrence. In these ways, EP Projects will ensure the preservation of the overall project value chain by clarifying the roles, responsibilities and accountabilities to be assumed by EP Projects throughout the project life cycle.

**ii) EP Projects – OU Relationship Models & Agreements**

Given the diversity of OU capability and experience and the wide ranging and differing demands associated with traditional projects as compared to leading edge technology and frontier projects, it became apparent that there is unlikely to be a generic EP Projects-OU relationship that can be applied to all EP OU's. Discussions are therefore ongoing to ascertain specific OU requirements and capabilities with respect to their current and future project portfolios and to craft and agree upon a mutually acceptable and customised relationship agreement between SIEP EPT-P and the OU CEO which recognises local challenges, environmental and social impacts, capabilities and constraints and which also acknowledges and honours the Excom mandate to EP Projects to ensure consistent project delivery. Of particular importance will be the requirement to clearly define and develop a robust business case for EP Projects that will be acceptable to local OU Partners and Stakeholders. The OU relationship agreement will be the foundation for the venture or project specific contract and charter discussed below.

**iii) EP Projects-OU Contract and Project Manager Charter**

Having discussed and agreed the EP Projects and OU relationship, it is proposed to enter into a customised agreement for each venture or project ("The Contract") between SIEP EPT-P and the OU CEO or his appointed delegate ("The Sponsors") which clearly delineates the relative roles, obligations and accountabilities of EP Projects and OU resources, key stakeholder considerations, the agreed business case and cost apportionment model. The Contract and the supporting "Project Rules" will form the foundation for a successful collaborative working relationship between EP Projects and the OU. Having established "The Contract", it is proposed to issue a "Charter" to the "Project Manager" which clearly defines his/her role and the jointly agreed Sponsor expectations. The contract will stipulate the project rules i.e. the statement of work, the responsibility matrix, the communication plan etc all of which are agreements among the stakeholders and which may change with mutual agreement if conditions change whereas the "Charter", on the other hand, is a one-time announcement that formally recognises the Project Manager, his/her accountabilities and mandate.

**iv) The Role of the Sponsors**

In most corporate environments, enlisting a powerful, interested sponsor is critical to the success of a project. The Sponsors are ultimately responsible for the project. Many projects are organisational anomalies. They cross department and corporate boundaries; they staff up for short periods, then disband; they may span a portion of a budget cycle while drawing resources from multiple groups. The temporary, ad hoc nature of projects can create major problems for project managers because their authority is typically

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insufficient to cope with these organisational challenges. The Sponsors are the solution to these problems. There are two basic concepts in understanding the importance of Sponsors to EP Projects. First, Sponsors are ultimately responsible for the success of the project. The real, formal authority that comes from their title and position in the organisation will endow them with this responsibility. Second, the Sponsor's primary task is to help the project team be successful. The best Sponsors will know they aren't sponsoring a project, they will sponsor the project manager and the project team. The Sponsor's job is to help these people be successful.

#### v) Stakeholders - the Heart of a Successful Project

Successful EP projects will have to meet all stakeholder expectations. The EP Projects-OU Contract will stipulate the goals of the project that the Sponsors, Project team & Customers have agreed upon in this regard. Satisfying all stakeholders can be a tough target, particularly if they emerge later in the project with new demands and requirements. This is why it will be critical for EP project managers to know from the start exactly who the stakeholders are and what they want. Only then, can they realistically fulfill their primary task of satisfying the stakeholders. Project managers may have to satisfy each stakeholder, but they may also receive valuable contributions from each one. All parties involved in a project should have a vital interest in the project's success – and each will have an essential contribution to make. Projects that lack one of the key stakeholders or their contributions are likely to career off course and miss project targets.

#### vi) Stakeholder Roles: EP Project Managers

Every project needs someone who, regardless of his or her title, performs the functions of Project Management. This role cannot be defined purely in terms of the functions of project management or the project management tool set. It must also be understood that the primary responsibility of a project manager is to lead all the stakeholders – the customers, management, vendors and project team – and to encourage them to work together throughout the execution of the project. Whether he/she is planning the project, identifying the stakeholders, watching for cost or schedule overruns, or refereeing disputes, the project manager has the primary leadership role in any project. It is therefore proposed to identify, appoint and appraise EP Project Managers in close consultation with OU CEO's and/or Sponsors (if so delegated) and to agree upon the accountability and governance models to be applied on a case by case basis to suit local conditions, staff competences and project challenges.

#### vii) EP Projects Cost Allocation Model

All services and resources to be provided by EP Projects to OU Customers will be provided at cost. In this regard, the cost of these services to existing SDS/DE customers in 2002 will be equal or lower than the tariffs currently being charged to these customers.

#### viii) Impact on SDS

The Global EP Projects organisation will entail the re-deployment of SDS/DE as an integral part of the new organisation. Current interfaces between DE and the remaining SDS organisation (subsurface evaluation teams, well engineering etc) are currently being addressed to ensure that the capabilities developed in the deep water value chain over the past three years are captured in the new structure.

Additionally, the team is developing a transition model for integrating SDS/DE into the new organisation. The Team is focussed on designing the very earliest integration to allow adoption of existing and proven systems and processes but ensure the least disruption to assured delivery of the currently operating projects (Bonga, Nakika and several other subsea projects).

#### ix) Impact on SGSi

The SepTAR Surface Cluster was integrated into Shell Global Solutions in January 2001 to provide a significant EP engineering service capability, designated OGU. The prime rationale for the move was to create the opportunity to offer commercial services to third parties, while at the same time providing support to both EP projects and EP OU operations. The integrated engineering portfolio was seen to offer high value to customers.

OGU and OGP have provided significant and valued services to Shell OU's (e.g. the seamless team approach with SPDC in Nigeria) and to EP projects (Sakhalin, Kudu, Bonga) during 2001.

The SGSi commercial model is based upon OGU charging a uniform commercial rate for services to both internal (i.e. Shell project teams and OU's) as well as third parties. The margin earned on internal services

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will be remitted to the respective EP OU's under a rebate mechanism agreed recently between EP (STEP) and SGSi.

At the time of writing, the precise interface between Global EP Projects and SGSi (OGU) remains to be finalised. Under current practices, OGU provide a range of engineering input to both SDS/DE and to various EP project teams. Clearly, the OGU engineering capability will be required by Global EP Projects and the delivery model (either re-location of the respective capabilities to EP Projects, or contracted delivery from OGU under an agreed framework) will be optimised by the design team. The preferred model is likely to see some re-location of SGSi staff to the Global EP Projects organisation.

**x) Interface between T&OE and the EP Projects Group.**

Regular contact has been maintained with the new "Technical and Operational Excellence" design team to ensure seamless integration with output of this parallel initiative particularly with respect to responsibilities and parentage of the Global Project Management skill pool staff in EP. With the advent of the T&OE organisation and the EP Projects Group (SIEP-EPT-P) at the same time, issues surrounding the resourcing and deployment of staff have been clarified and agreed.

EP Projects will clearly have a very direct interest in good quality engineers in order to deliver their mandate. EP Projects will therefore retain the right and responsibility to deploy and assign staff within the EPP fraternity as they see fit to realise major project delivery goals.

In its efforts to deliver its mandate, EP Projects uses a mental model, which can be compared to an operating company staffed with a managed pool of dedicated and globally deployable project management and project engineering resources. In this model EP Projects' staff work within the operating company (EP Projects) and around the world on the EP Project portfolio. Those staff assigned to operating companies will be formally identified as EP Project staff and treated accordingly (for example the time in the operating company would be part of the overall assignment period of the staff member to EP Projects).

T&OE engineering skills managers have the responsibility to "look after" all engineers whether or not they have the potential/skills to join EPP. It is incumbent on them, together with HR, to ensure that within reason the right person is in the right place at the right time, via managed open resourcing. Very often, this will mean encouraging someone to go to EP Projects (as a highest priority = global ranking for resources at Excom level) or to accept surplus staff from EP Projects. SDS/DE already has a proven foundation for deploying and competency assuring SDS/DE staff via "Community (engineering skills) Managers" who are responsible not only for competence development but who also act as the senior authorities within their project disciplines. For this reason it is proposed that staff going to EP Projects will do so on a longer term "ring-fenced" basis than normal (say up to 7 or 8 years instead of 4). In addition, release of those staff to the EP pool will be on an agreed window basis on assignment and arranged either via OR, placement or in consultation with the HR/T&OE engineering skills managers. Skills managers would then not start to think of external deployment of EP Projects staff until after this period and based on an agreed window. Moreover EP Projects will be an excellent training ground for young engineers and therefore a major "resource" for development opportunities. It is anticipated that the EP Projects organisation will offer an exciting value proposition to new hires and help attract new staff and thus rejuvenate the engineering staff pool.

**Way Forward**

The initial phase of portfolio definition and high-level organisational design is complete. Detailed design, communication and transition planning is now underway. A "Whole System Design" philosophy is being pursued to implement detailed staffing, OU/stakeholder engagement process, new EP Projects culture and support mechanisms that will be required to make the impact and step change that EP Projects aspires to deliver. This next round of detailed transition planning consists of four key elements, each managed and driven by one of four dedicated transition teams:

- i. Organisational Detailed Design Team
- ii. Stakeholder Engagement and OU Contract Team
- iii. People and Communication Team
- iv. Business Support Team

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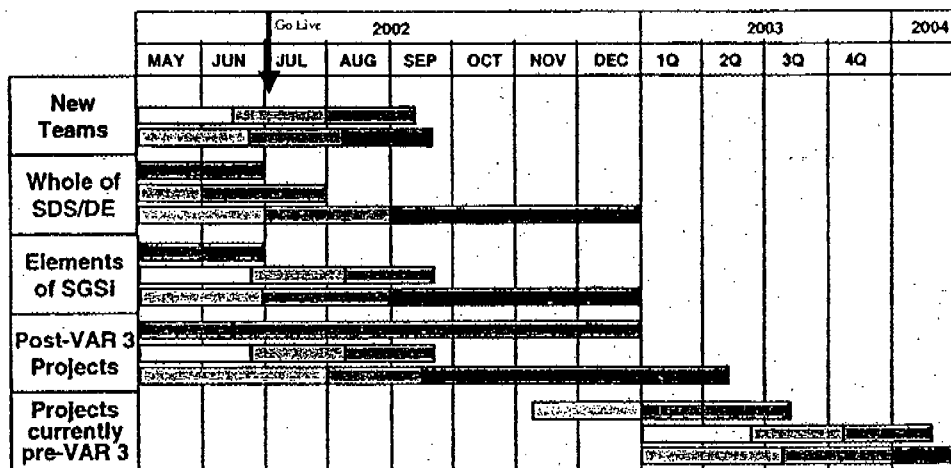
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Of particular interest and significance to the EP leadership is the series of planned and ongoing OUs and project sessions which have commenced to brief OU management teams on the changes proposed and to ensure that future customers and stakeholders expectations are recognised and catered for.

The proposed transition timeline is shown below and the latest schedule of OU contacts/visits will be presented at the EPLF.

## Transition Timeline



Customers: Engage, Select / Align, Detail design, New/Current  
 Leadership: Select / Align, Detail design, New/Current  
 Staff: Communicate, Align/Design, Detail design

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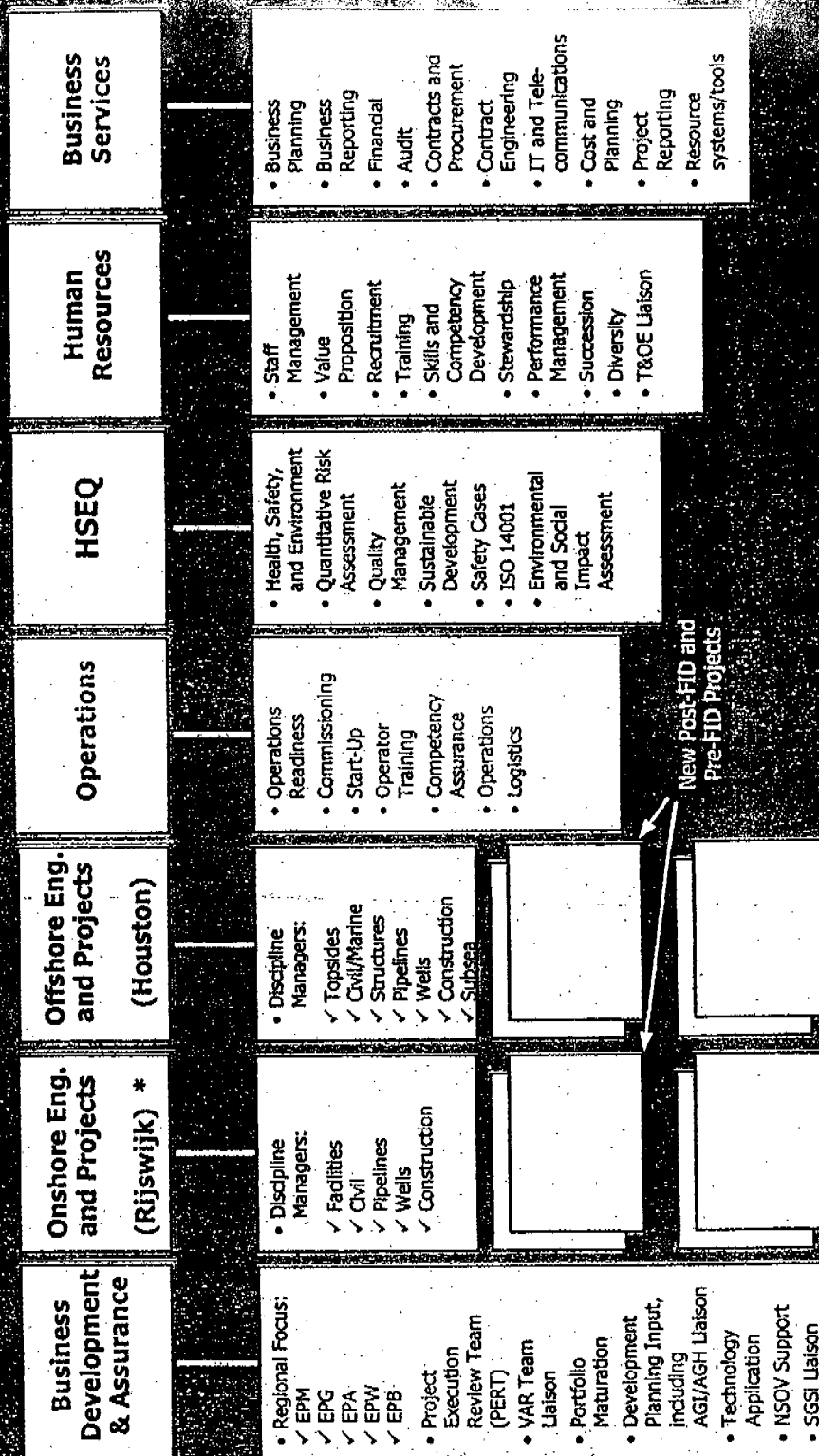
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# EP Projects Organisation

## Figure 1



\* Includes GEC projects

Post-FID Projects already in execution: learnings and people to ensure repeatability



EP Projects