

## Getting Ready

This guide will lead you through the facilitation of a 60 to 90-minute interactive session with your team. This session will help participants:

- Understand the impact of daily decisions on company finances
- Understand the drivers of cash flow and key financial metrics that Chevron uses to evaluate its decisions
- Consider financial and non-financial trade-offs of making decisions in the field that can impact operating costs and capital expenditures
- Understand the impact that contractual commitments can have on business planning and results

## Set-up + preparation

Each participant should be in groups of 2-3 with a laptop in front of them. Each laptop should have an open browser window with the following link:

chevronffp.btspulse.com

username: ffp1, ffp2, ffp3

Each group should use the same username (ie group 1 is ffp1, group 2 is ffp2, etc)

password: p

Each participant should see the below after logging in.

The screenshot shows the Financial Fluency Tool interface. At the top, it displays financial metrics: Project NPV (-\$24.9MM), Project Investment PV (\$8.3MM), Project DPI (-2.02), Project IRR (-2.7%), and Project Payback (0 Years). To the right is a small illustration of an oil refinery. Below these are four sections for 'Scenario Inputs': 1) Project Schedule (Duration: 100 Years), Project Capital Expenditures (\$10 MM), Peak Production Rate (1.0 MBD), Recoverable Resource (1MMBBL), Reliability / Uptime (90%), Project Operating Expenses (\$15.0 / BBL), Resource Price (\$50 / BBL), and Working Capital Days (40 Days). Each input has a 'Reset' button. To the right of these are four buttons labeled 'Save Scenario 1' through 'Save Scenario 4'. 2) Project NPV0, Project Investment PV0, Project Incremental DPI, Project IRR, Project Schedule (Duration), Project Capital Expenditures, Payback (Years), Peak Production Rate, and Recoverable Resource. Each of these has a 'Clear' button. The entire interface is titled 'Financial Fluency Tool' with the Chevron logo.

If they cannot see all 4 scenario areas, they should adjust their screen resolution to 1920 x 1080. To adjust screen resolution:

1. Open Screen Resolution by clicking the Start button, then clicking Control Panel, and then, under Appearance and Personalization, clicking Adjust screen resolution.
2. Click the drop-down list next to Resolution, move the slider to the resolution you want, and then click Apply.
3. Click Keep to use the new resolution, or click Revert to go back to the previous resolution.

Leading this program is designed to be easy for you – provided you follow the instructions included in this guide carefully, it should take no more than 20-30 minutes of preparation to be ready to lead this session with your team.

Good luck!

### **Session Agenda**

<b>Activity</b>	<b>Activity Time</b>
Introduction	5 minutes
Production vs Returns	10 minutes
Value vs Cost	10 minutes
Opex vs Capex	10 minutes
The Value of Redundancy	10 minutes
Standardization	10 minutes
New vs Existing Inventory	10 minutes
Supply Chain	10 minutes
Action Planning	10 minutes

## **INTRODUCTION (5 minutes)**

**SHOW:**



**DO:** Have people introduce themselves around the room

**SAY:**

Welcome!

We are pleased to welcome you to this 60-90 minute Financial Fluency Simulation exercise. As a member of the management team of Nonagon, our simulated oil & gas company, you will be provided with a series of scenarios and will be responsible for working with your team to come up with the best solutions for Nonagon to make financially sound decisions.

We'll cover some background information about Nonagon to get you up to speed, and throughout this exercise you'll have an opportunity to share ideas with peers and hear from their experiences and opinions.

Many of the choices that you make each and every day, while they may seem small, can have a large cumulative impact on the organization's overall finances. In this session, we will help connect the dots between the decisions you make and broader financial performance back at Chevron.

With that being said, let's take a look at the objectives of the session:

## OBJECTIVES

### Show:

We are pleased to welcome you as a member of the management team of Nonagon.

**The Objectives:**

- Understand the impact of daily decisions on company finances.
- Understand the drivers of cash flow and key financial metrics that Chevron uses to evaluate its decisions.
- Consider financial and non-financial tradeoffs of making decisions in the field that can impact operating costs and capital expenditures.
- Understand the impact that contractual commitments can have on business planning and results.

Good luck!



### Say:

Here are the objectives:

- Understand the impact of daily decisions on company finances.
- Understand the drivers of cash flow and key financial metrics that Chevron uses to evaluate its decisions.
- Consider financial and non-financial tradeoffs of making decisions in the field that can impact operating costs and capital expenditures.
- Understand the impact that contractual commitments can have on business planning and results.

## Welcome to the simulated company

**Welcome to Nonagon**

- Due to a recent downturn in the industry, Nonagon has been facing pressure from Wall Street to generate positive free cash flow and start generating positive returns in any price environment.
- Given these expectations, Nonagon must focus on building financial fluency throughout the organization.
- Every Nonagon employee, many of whom are technical experts, must be able to speak the same language when weighing certain tradeoffs and discussing the financial impact of project decisions.



### Say:

Welcome to the simulated company, Nonagon. Due to a recent downturn in the industry, Nonagon has been facing pressure from Wall Street to generate positive free cash flow and start generating positive returns in any price environment. Given these expectations, Nonagon must focus on building financial fluency throughout the organization. Every Nonagon employee, many of whom are technical experts, must be able to speak the same language when weighing certain tradeoffs and discussing the financial impact of project decisions.

## **Event 1: Production vs. Returns (10 minutes)**

**Key Learning Point:** Understand how daily decisions impact company financial results, as well as tradeoffs between generating higher production versus generating higher returns.



**Say:** We will be diving into the first scenario where we will be exploring some of the basics of financial model and explore a situation where we need to weigh trade-offs between driving higher production and generating higher returns.

## Event Introduction

### Event 1: Production vs. Returns

Given the current business climate, the amount of capital that's available for project investments is constrained. Similarly, our focus has shifted from prioritizing projects with high production to prioritizing projects with high returns. These priorities necessitate a change in both our thinking and in the factors we consider when making decisions about which projects to pursue. Let's explore some of the decisions that impact production and the profit generated by our investments.



**DO:** Ask a volunteer in the group to read out the first scenario and instruct them not to do anything in the simulation tool yet.

## Discussion Question

Event 1: Production vs. Returns

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Every year, our field production naturally declines from our existing wells. In an effort to replace production, your asset team has identified a potential new reservoir that could add 22 MMBL of resources and 7.5 MBD of production. This new project is expected to cost \$80MM and will take 3 years to complete.

**What value drivers should you consider in evaluating whether or not to pursue this project?**



**ASK:** What value drivers they would use to evaluate whether or not to pursue this project.

**Potential Answers:**

- NPV, DPI, IRR, Project Payback, HES, OE risks should all be metrics that teams mention

**SAY:** Let's jump into the simulation tool and start evaluating this project and look at a couple of options.

## Event Input

**Event 1: Production vs. Returns**

**Scenario 1: Pursue the new reservoir.**

**In your tool:**

- Change Project Schedule to 3.00 years
- Change Project Capital Expenditures to \$80MM
- Change Peak Production to 7.5 MBD
- Change Recoverable Resource to 22 MMBL
- Click Save Scenario 1 to save results

*Scenario 1: NPV 41.8MM | PV 60.3MM*

**\$41.81MM** **\$60.3MM** **1.69** **14.8%** **7 Years**

Project NPV Project Investment PV Project DPI Project IRR Project Payback

**Financial Fluency Tool**

**Scenario Inputs**

Project Schedule (Duration)	3.00 Years	Reset
Project Capital Expenditures	\$ 80 MM	+
Peak Production Rate	7.5 MBD	+
Recoverable Resource	22 MMBBL	+
Reliability / Uptime	90%	+
Project Operating Expenses	\$ 15.0 / BBL	+
Resource Price	\$ 50 / BBL	+
Working Capital Days	40 Days	+

**Save Scenario 1** **Save Scenario 2** **Save Scenario 3** **Save Scenario 4**

Project NPV <sub>10</sub>	\$41.81MM
Project Investment PV <sub>10</sub>	\$60.3MM
Project Incremental DPI	1.69
Project IRR	14.8%
Project Schedule (Duration)	3.00 Years
Project Capital Expenditures	\$80 MM
Payback (Years)	7 Years
Peak Production Rate	7.5 MBD
Recoverable Resource	22 MMBBL

## DO:

- Have the teams input these decisions into the simulation tool.
- Please make sure all teams have clicked save to scenario 1 to save results
  - Note that as the financial metrics change, they color of the numbers will change as well: green indicates a positive change in a metric, red indicates a negative change.

## **Discussion Question**

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**Discuss within your team: is this a financially viable project?**



**ASK:** Is this a financially viable project? From a financial perspective, would you invest in this project? Why or why not?

**Potential answers:**

- Yes this is a good project because DPI is relatively high.
- NPV is positive therefore this is a good project.
- IRR is pretty high
- The project payback seems to be pretty long

**ASK:** What metrics show you that this is a good or bad project?

**Potential answers:**

- NPV, DPI, IRR

## Event Introduction

**Event 1: Production vs. Returns**

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With any successful operation, there's a long queue of potential projects that your team could work on. Another project near the top of the list is adding injection wells that are estimated to add 5.5 MBD of production with an additional 15 MMBBL of resources. This project will cost \$60 MM and take 1 year to complete and will increase operating expenses by \$0.50 / BBL.



**DO:** Have another volunteer read the text

## Event Input

**Event 1: Production vs. Returns**

**Scenario 2: Add injection wells.**

**In your tool:**

- Change Project Schedule to 1.00 year
- Change Project Capital Expenditures to \$60 MM
- Change Production to 5.5 MBD
- Change Recoverable Resource to 15.0 MMBBL
- Change Project Operating Expenses to \$15.50/BBL
- Click Save Scenario 2 to save results

*Scenario 2: NPV 66.4MM | PV 49.6MM*

**Financial Fluency Tool**

Project NPV	\$32.3MM	Project Investment PV	\$46.3MM	Project DPI	1.70	Project IRR	21.0%	Project Payback	4 Years																																																																																																																																																												
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## Do:

- Have participants input injection well scenario into the simulation tool
- Please make sure that participants have clicked save scenario 2 in simulation tool

## **Discussion Question**

**If you were forced to choose, would you pursue the first or second project?**



**ASK:** If you were forced to choose, would you pursue the first or second project? Which is better from a financial perspective?

### **Potential Answers:**

- Scenario 2 has lower total production, but higher NPV, DPI, IRR, and shorter payback. This is the better option from a returns standpoint
- Both projects are good projects and ideally both are completed. However it depends on what other projects are in the business unit's queue of projects

**Discussion Question**

—

## When does it make sense to prioritize production over returns?



**ASK:** When does it make sense to prioritize production over returns?

**Potential Answers:**

- If you foresee the oil price going up in the next few years, it may make sense to prioritize production. Of course forecasting oil price is incredibly difficult.
- Returns are important, but it's equally as important to not over-rotate on returns, as a great margin on just a few barrels doesn't help the company move forward.

## — Reset the tool + clear scenarios



**SAY:** We hope this first scenario got you more familiar with the concepts of the key financial metrics used to evaluate projects and helped you better understand the trade-offs that could exist between higher production and higher returns.

**DO:** Have participant reset the tool and clear all scenarios.

## **Event 2: Value vs Cost (10 minutes)**

**Key Learning Point:** Understand decisions impact on company finances, as well as how to assess the value and cost of potential increased production under different oil price scenarios



**Say:** Welcome to the second event. In this event, we are going to be looking at value and cost of potential increased production under different oil price situations.

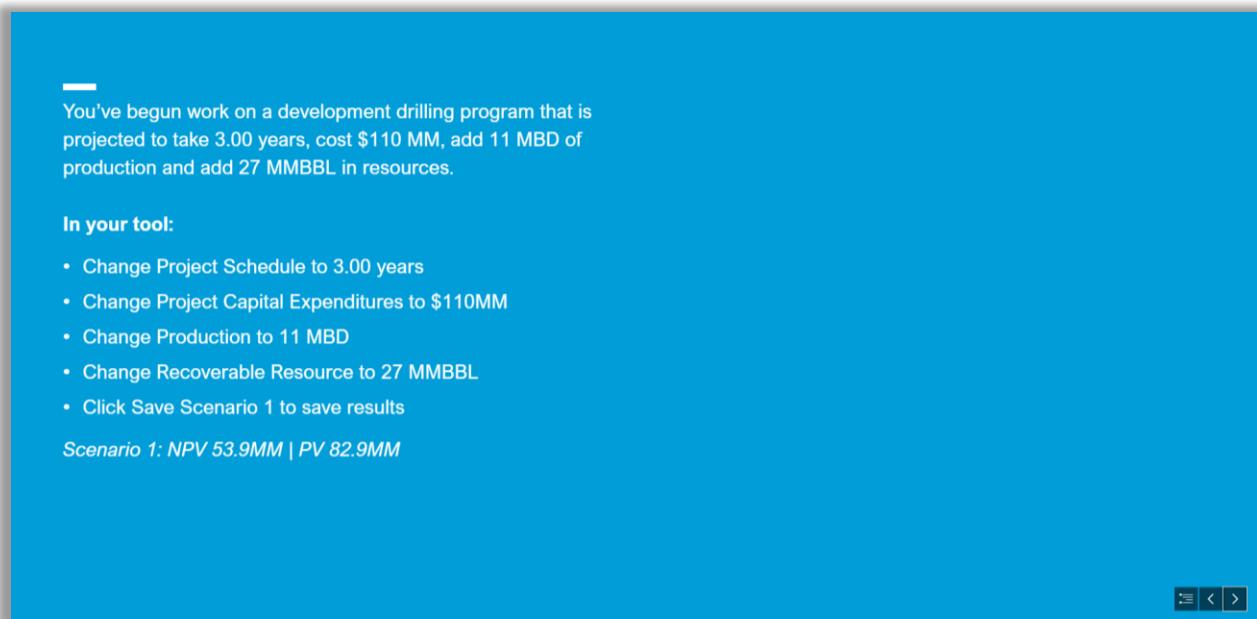
## Event Introduction and Input

You've begun work on a development drilling program that is projected to take 3.00 years, cost \$110 MM, add 11 MBD of production and add 27 MMBBL in resources.

**In your tool:**

- Change Project Schedule to 3.00 years
- Change Project Capital Expenditures to \$110MM
- Change Production to 11 MBD
- Change Recoverable Resource to 27 MMBBL
- Click Save Scenario 1 to save results

*Scenario 1: NPV 53.9MM | PV 82.9MM*



**\$41.28MM    \$81.8MM    1.50    14.3%    7 Years**

Project NPV    Project Investment PV    Project DPI    Project IRR    Project Payback

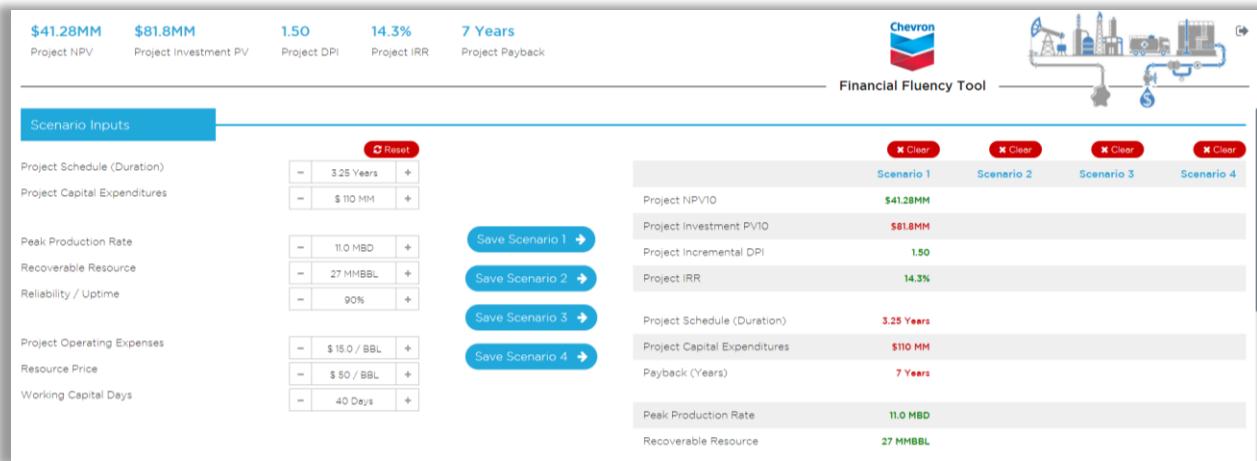
**Financial Fluency Tool**

**Scenario Inputs**

Project Schedule (Duration)	3.25 Years	Reset
Project Capital Expenditures	\$110 MM	+
Peak Production Rate	11.0 MBD	+
Recoverable Resource	27 MMBBL	+
Reliability / Uptime	90%	+
Project Operating Expenses	\$15.0 / BBL	+
Resource Price	\$50 / BBL	+
Working Capital Days	40 Days	+

**Save Scenario 1**   **Save Scenario 2**   **Save Scenario 3**   **Save Scenario 4**

Project NPV <sub>10</sub>	\$41.28MM
Project Investment PV <sub>10</sub>	\$81.8MM
Project Incremental DPI	1.50
Project IRR	14.3%
Project Schedule (Duration)	3.25 Years
Project Capital Expenditures	\$110 MM
Payback (Years)	7 Years
Peak Production Rate	11.0 MBD
Recoverable Resource	27 MMBBL



**SAY:** (Read text on screen)

**Do:** Have participants input scenario into the tool and make sure that participants save scenario

## Event Introduction and Input

Event 2: Value vs. Costs

You've identified an additional opportunity to modify the drilling program to extend the wells deeper into the reservoir.

Extending the wells is expected to increase peak production and add additional resources, but will require more time and higher capital investment.

In your tool:

- Change Project Schedule to 3.50 years
- Change Project Capital Expenditures to \$125MM
- Change Production to 14 MBD
- Change Recoverable Resource to 30 MMBBL
- Click Save Scenario 2 to save results

Scenario 2: NPV 57.6MM | PV 91.8MM



\$54.40MM    \$91.8MM    1.59    14.5%    7 Years

Project NPV    Project Investment PV    Project DPI    Project IRR    Project Payback

Chevron Financial Fluency Tool

Scenario Inputs

Project Schedule (Duration)	<input type="text" value="3.50 Years"/> <input type="button" value="Reset"/>
Project Capital Expenditures	<input type="text" value="\$125 MM"/> <input type="button" value="Reset"/>
Peak Production Rate	<input type="text" value="13.5 MBD"/> <input type="button" value="Reset"/>
Recoverable Resource	<input type="text" value="30 MMBBL"/> <input type="button" value="Reset"/>
Reliability / Uptime	<input type="text" value="90%"/> <input type="button" value="Reset"/>
Project Operating Expenses	<input type="text" value="\$15.0 / BBL"/> <input type="button" value="Reset"/>
Resource Price	<input type="text" value="\$50 / BBL"/> <input type="button" value="Reset"/>
Working Capital Days	<input type="text" value="40 Days"/> <input type="button" value="Reset"/>

Save Scenario 1 →    Save Scenario 2 →    Save Scenario 3 →    Save Scenario 4 →

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Project NPV <sub>10</sub>	\$41.28MM	\$54.40MM		
Project Investment PV <sub>10</sub>	\$81.8MM	\$91.8MM		
Project Incremental DPI	1.50	1.59		
Project IRR	14.3%	14.5%		
Project Schedule (Duration)	3.25 Years	3.50 Years		
Project Capital Expenditures	\$110 MM	\$125 MM		
Payback (Years)	7 Years	7 Years		
Peak Production Rate	11.0 MBD	13.5 MBD		
Recoverable Resource	27 MMBBL	30 MMBBL		

**Say:** (Read text on screen)

**Do:** Have participants input scenario into the tool and make sure that participants save scenario

### **Discussion Question**

—

**Discuss with your team: is it worthwhile to drill deeper into the reservoir?**



—

**What additional information might cause you to change your decision?**



**ASK:** Is it worthwhile to drill deeper into the reservoir? What information would cause you to change your decision?

#### **Potential Answers:**

- Scenario 1 is slightly better from a financial perspective, but it is incredibly close
- If you foresee the oil price going up in the next few years, you would potentially change your decision
- If you foresee HES, OE, or other risks, you would change your decision
- If you could never go back and drill deeper later to capture those resources, you would change your decision

## Scenario Input

Event 2: Value vs. Costs

Now let's explore the same two options, but this time with a significantly higher oil price.

The original drilling program with a higher oil price:

- Change Project Schedule to 3.00 years
- Change Project Capital Expenditures to \$110MM
- Change Production to 11 MBD
- Change Recoverable Resource to 27 MMBBL
- Change Resource Price from \$50/BBL to \$80/BBL
- Click Save Scenario 3 to save results

Scenario 3: NPV 1840.8MM| PV 82.9MM



Event 2: Value vs. Costs

The modified drilling program with a higher oil price:

- Change Project Schedule to 3.50 years
- Change Project Capital Expenditures to \$125MM
- Change Production to 14 MBD
- Change Recoverable Resource to 30 MMBBL
- Click Save Scenario 4 to save results

Scenario 4: NPV 2022.9MM| PV 91.8MM



**\$315.0MM**   **\$77.4MM**   **5.07**   **47.8%**   **4 Years**

Project NPV      Project Investment PV      Project DPI      Project IRR      Project Payback


**Financial Fluency Tool**



	<b>Scenario 1</b>	<b>Scenario 2</b>	<b>Scenario 3</b>	<b>Scenario 4</b>
Project NPV <sub>10</sub>	<b>\$37.3MM</b>	\$37.3MM	\$315.0MM	<b>\$339.9MM</b>
Project Investment PV <sub>10</sub>	\$77.4MM	\$81.7MM	\$77.4MM	\$81.7MM
Project Incremental DPI	1.48	<b>1.46</b>	5.07	<b>5.16</b>
Project IRR	14.8%	<b>14.0%</b>	<b>47.8%</b>	45.7%
Project Schedule (Duration)	3.25 Years	3.50 Years	3.25 Years	3.50 Years
Project Capital Expenditures	\$110 MM	\$125 MM	\$110 MM	\$125 MM
Payback (Years)	7 Years	7 Years	4 Years	4 Years
Peak Production Rate	11.5 MBD	13.0 MBD	11.5 MBD	13.0 MBD
Recoverable Resource	27 MMBBL	30 MMBBL	27 MMBBL	30 MMBBL
Reliability / Uptime	90%			
Project Operating Expenses	\$15.0 / BBL			
Resource Price	\$80 / BBL			
Working Capital Days	40 Days			

Scenario Inputs      **Reset**

Peak Production Rate      Recoverable Resource      Reliability / Uptime      Project Operating Expenses      Resource Price      Working Capital Days

Save Scenario 1      Save Scenario 2      Save Scenario 3      Save Scenario 4

**SAY:** Let's see how this oil price would impact your decision.

**DO:** Have participants enter in results for scenario 3 and scenario 4

**Discussion Question:**

—  
**How does the higher oil price impact the outcome?**



**ASK:** How does the higher oil price impact the outcome?

**Potential Answers:**

- The higher oil price makes the scenario with the higher production rate much more attractive because of the higher resources and production
- May be a good time to discuss how the oil price has impacted the kind of projects we prioritize in our queue of projects.

**Reset the tool:**



**SAY:** Now you understand how certain decisions impact on company finances, as well as how to assess the value and cost of potential increased production under different oil price scenarios.

**DO:** Have participant reset the tool and clear all scenarios.

### **Event 3: Opex vs. Capex (10 minutes)**

**Key Learning Point:** Understand how incurring operating expenses and capital expenditures impact project and company financials.



**Say:** Let's move to the next event which will compare the differences between incurring operating expenses and capital expenditures and how it impacts project and company financials

## **Event Introduction:**

### **Event 3: Opex vs. Capex**

You are working on a new expansion project that appears to be very promising. The project is expected to take 2 years and cost \$55MM, while improving production profiles by 4.5 MBD and adding 15 MMBBL of resources. However, in order to meet quality specifications, the crude from this project will require treatment before transporting to end markets.

You have two options for treating the crude:

- 1. Buy additional equipment to treat the crude.** This will increase capital expenditures, but won't impact operating expenses.
- 2: Use a contractor's patented filtration process,** which has a low carbon footprint. Some DRB members would like to try this technology on your project to test its applicability for other projects. Using the contractor's filtration process will increase operating expenses, but won't impact capital expenditures.



**SAY:** (Read text on screen)

## Event Input

**Event 3: Opex vs. Capex**

---

**Buy additional equipment to treat the crude - the cost of purchasing equipment is \$5MM.**

**In your tool:**

- Change Project Schedule to 2 years
- Change Project Capital Expenditures to \$55MM
- Change Production to 4.5 MBD
- Change Recoverable Resource to 15 MMBBL
- Click Save Scenario 1 to save results

*Scenario 1: NPV 45.4MM| PV 44.1MM*

[<] [>]

**Event 3: Opex vs. Capex**

---

**Use a contractor's filtration process to treat the crude - the cost of using a contractor's filtration process is \$6MM.**

**In your tool:**

- Change Project Capital Expenditures to \$50 MM
- Change Project Operating Expenses from \$15/BBL to \$15.4/BBL
  - Note: A \$0.4/BBL increase in operating expenses multiplied by the expected 15 million barrels of recoverable resource will cost \$6MM over the life of the project.
- Click Save Scenario 2 to save results

*Scenario 2: NPV 66.9MM| PV 40.1MM*

[<] [>]

**DO:** Have participants enter scenario 1 and scenario 2.

**Discussion Question:**

—

**Scenario 2 has higher costs than Scenario 1, yet has better NPV and DPI. Why is it that an OpEx based approach yields better results?**



**ASK:** Scenario 2 has higher costs if you look at both OpEx and CapEx than scenario 1, yet has better NPV and DPI. Why is it that an OpEx-based approach yields better results?

**Potential Answers:**

- Taxes are lower in the OpEx scenario because they are usually assessed on a P&L basis. At times, minimizing your CapEx and increasing your OpEx can have implications on taxes that result in better financials even if OpEx option is seemingly more expensive.

**Discussion Question:**

—

**Other than just looking at the financial metrics, what other factors should you consider in making your decision?**



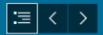
**ASK:** Other than just financials, what other factors should you consider in making your decision?

**Potential Answers:**

- It would be wise to look at things like the license agreement, production sharing agreement, and understand how your financials could be impacted by these kinds of decisions.

**—**

**Reset the tool + clear scenarios**



**SAY:** Now you understand how incurring operating expenses and capital expenditures impact project and company financials.

**DO:** Have participant reset the tool and clear all scenarios.

## Event 4: The Value of Redundancy (10 minutes)

**Key Learning Point:** Understand how contractual commitments impact business planning and results.

### Event 4: The Value of Redundancy



#### Event 4: The Value of Redundancy

You are designing a new facility and the project is now projected to exceed the available capital. Power generation is an area where you think you can potentially reduce costs.

The current design has two generators independently capable of providing all the power requirements, with one large generator taking the full load and the second twin serving as a backup. The team has also shown that installing three generators, each with 50% capacity, is a viable alternative, where two generators run to take the full load and the third serves as backup.

**SAY:** (Read text on screen)

#### Event 4: The Value of Redundancy

Using two generators would cost \$20 MM in Capital Expenditures and have Project Operating Expenses of \$15.50 / BBL, with overall facility uptime forecasted at 99%.

##### Use two generators

###### In your tool:

- Change Project Capital Expenditures to \$20 MM
- Change Peak Production to 2 MBD
- Change Recoverable Resource to 5 MMBBL
- Change Reliability/Uptime to 99%
- Change Project Operating Expenses to \$15.50 / BBL
- Click Save Scenario 1 to save results

*Scenario 1: NPV 36.9MM| PV 16.5MM*



**SAY:** (Read text on screen)

**DO:** Have participants enter changes in the tool and save the scenario

#### Event 4: The Value of Redundancy

Using three generators would cost \$15 MM in Capital Expenditures and have Project Operating Expenses of \$15.40 / BBL, with overall facility uptime forecasted at 95%.

##### Use three generators

###### In your tool:

- Decrease Project Capital Expenditures to \$15 MM
- Change Reliability/Uptime to 95%
- Decrease Project Operating Expenses to \$15.40 / BBL
- Click Save Scenario 2 to save results

Scenario 2: NPV 75.2MM| PV 12.4MM



**\$75.16MM**   **\$12.4MM**   **7.06**   **27.5%**   **4 Years**

Project NPV   Project Investment PV   Project DPI   Project IRR   Project Payback

**Chevron** Financial Fluency Tool

The screenshot shows the 'Financial Fluency Tool' interface. At the top, it displays key project metrics: NPV (\$75.16MM), Investment PV (\$12.4MM), Project DPI (7.06), Project IRR (27.5%), and Project Payback (4 Years). Below these are 'Scenario Inputs' for various project parameters like duration, capital expenditures, production rates, and reliability. To the right, there's a summary table for four scenarios, each with a 'Clear' button. The table includes columns for Project NPV, Investment PV, Project DPI, Project IRR, and several project details. The 'Scenario 1' row is highlighted in red, indicating it's the current active scenario.

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Project NPV <sup>10</sup>	\$36.90MM	\$75.16MM		
Project Investment PV <sup>10</sup>	\$16.5MM	\$12.4MM		
Project Incremental DPI	3.23	7.06		
Project IRR	18.6%	27.5%		
Project Schedule (Duration)	100 Years	100 Years		
Project Capital Expenditures	\$20 MM	\$15 MM		
Payback (Years)	4 Years	4 Years		
Peak Production Rate	2.0 MBD	2.0 MBD		
Recoverable Resource	5 MMBBL	5 MMBBL		
Reliability / Uptime	95%			
Project Operating Expenses	\$15.4 / BBL			
Resource Price	\$50 / BBL			
Working Capital Days	40 Days			

**SAY:** (Read text on screen)

**DO:** Have participants enter in the second scenario and save the tool

—

## Would you recommend moving forward with two or three generators?



**ASK:** Would you recommend moving forward with two or three generators?

- Having three generators is significantly better than the other option.
- Too much redundancy may not always be necessary

#### Event 4: The Value of Redundancy

Now, consider that your oil sales contract is structured so you're obligated to supply a certain minimum volume. Having 99% uptime allows you to easily clear the minimum volume. However, reducing reliability to 95% impacts your ability to meet these contractual obligations and causes Nonagon to incur a penalty.

##### In your tool:

- Reduce the Resource Price to \$46 / BBL (reflecting the failure to meet certain contractual obligations)
- Click Save Scenario 3 to save results.
- Clear Scenario 2.

*Scenario 3: NPV 17.7MM| PV 12.4MM*



\$17.67MM   \$12.4MM   2.43   16.3%   5 Years

Project NPV   Project Investment PV   Project DPI   Project IRR   Project Payback

Financial Fluency Tool

**Scenario Inputs**

Project Schedule (Duration)	100 Years	Reset
Project Capital Expenditures	\$ 15 MM	+
Peak Production Rate	2.0 MBD	+
Recoverable Resource	5 MMBBL	+
Reliability / Uptime	95%	+
Project Operating Expenses	\$ 15.4 / BBL	+
Resource Price	\$ 46 / BBL	+
Working Capital Days	40 Days	+

	Clear	Clear	Clear	Clear
Project NPV10	\$36.90MM	<b>\$75.16MM</b>	<b>\$17.67MM</b>	\$12.4MM
Project Investment PV10	<b>\$16.5MM</b>	\$12.4MM	\$12.4MM	\$12.4MM
Project Incremental DPI	3.23	<b>7.06</b>	<b>2.43</b>	2.43
Project IRR	18.6%	<b>27.5%</b>	<b>16.3%</b>	16.3%
Project Schedule (Duration)	100 Years	100 Years	100 Years	100 Years
Project Capital Expenditures	<b>\$20 MM</b>	\$15 MM	\$15 MM	\$15 MM
Payback (Years)	4 Years	4 Years	<b>5 Years</b>	5 Years
Peak Production Rate	2.0 MBD	2.0 MBD	2.0 MBD	2.0 MBD
Recoverable Resource	5 MMBBL	5 MMBBL	5 MMBBL	5 MMBBL

**SAY:** Consider that your oil sales contract is structured so you're obligated to supply a certain minimum volume. Having 99% uptime allows you to easily clear the minimum volume requirement, but reducing reliability to 95% impacts your ability to meet these contractual obligations and cause Nonagon to incur a penalty.

**DO:** Have participant enter in the third scenario and save the scenario in the tool, and clear Scenario 2.

—

**Does this change which option you would recommend?**



**ASK:** Does this change which option you would recommend?

- Two generator option is much better if there is a contractual commitment

—

**What are other non-financial value drivers we need to keep in mind?**



**ASK:** What are other non-financial drivers we need to keep in mind?

- Other non-financial drivers are reputation, potential HES risks, headcount necessary

**—**

**Reset the tool + clear scenarios**



**SAY:** Now you understand how contractual commitments impact business planning and results. Please reset the tool and clear scenarios.

**DO:** Have participant reset the tool and clear all scenarios.

## **Event 5: Standardization (10 minutes)**

**Key Learning Point:** Understand how drilling and operation decisions impact company finances, as well as tradeoffs between generating higher production versus generating higher returns.



**SAY:** (Read text on screen)

**Event 5: Standardization**

You're planning a project to extend the limits of an existing field. The standard design for wells in this field has been used for several years and has proven to be successful.

An alternative design for the well pads has been identified, which will allow for higher efficiency in the drilling program. The alternative design will make it possible to accomplish the scope of work faster and result in lower overall project cost, with slightly higher production and increased reserves. However, the alternative design will require the wells to be redesigned, resulting in additional time for front end engineering and deferring initial production from the wells on each pad.

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## What are the risks associated with using a new well design versus an existing design?



**ASK:** What are the risks associated with using a new well design versus an existing design?  
What additional information would you need to decide on a design

- Using a new well design can result in higher production, but will take longer to implement and ultimately cost more. Using an existing design allows us to move faster and generate production quicker.
- There is also risks associated with implementing a new design from an operations perspective
- There are also risks associated with delays in engineering

**Use the existing development design.**

In your tool:

- Change Project Schedule to 1.75 Years
- Change Project Capital Expenditures to \$55 MM
- Change Peak Production to 5.0 MBD
- Change Recoverable Resource to 18 MMBBL
- Click Save Scenario 1 to save results

*Scenario 1: NPV 89.2MM| PV 43.7MM*



**DO:** Have each team enter inputs for Scenario 1

**Create a new development design - Note the increase in Working Capital Days is due to having to carry more inventory to accommodate the change in design.**

**In your tool:**

- Change Project Schedule to 2 Years
- Change Project Capital Expenditures to \$65 MM
- Change Peak Production to 6.5 MBD
- Change Recoverable Resource to 22 MMBBL
- Change Working Capital Days to 42 Days
- Click Save Scenario 2 to save results

*Scenario 2: NPV 91.3MM| PV 51.3MM*

The screenshot shows the Financial Fluency Tool interface. At the top, it displays project metrics: Project NPV (\$91.33MM), Project Investment PV (\$51.3MM), Project DPI (2.78), Project IRR (16.6%), and Project Payback (6 Years). To the right is a Chevron logo and a stylized oil rig icon. Below these are two sections: 'Scenario Inputs' and 'Financial Fluency Tool'.

**Scenario Inputs:**

	Value	Unit
Project Schedule (Duration)	2.00	Years
Project Capital Expenditures	\$ 65	MM
Peak Production Rate	6.5	MBD
Recoverable Resource	22	MMBBL
Reliability / Uptime	90%	
Project Operating Expenses	\$ 15.0	/ BBL
Resource Price	\$ 50	/ BBL
Working Capital Days	42	Days

**Save Scenario Buttons:**

- Save Scenario 1
- Save Scenario 2
- Save Scenario 3
- Save Scenario 4

**Financial Fluency Tool:**

Scenario	NPV	Investment PV	DPI	IRR	Schedule	Capital Expenditure	Payback	Production Rate	Recoverable Resource
Scenario 1	\$89.19MM	\$91.33MM	3.04	2.78	1.75 Years	\$55 MM	6 Years	5.0 MBD	18 MMBBL
Scenario 2	\$91.33MM	\$51.3MM	2.78	16.6%	2.00 Years	\$65 MM	6 Years	6.5 MBD	22 MMBBL
Scenario 3									
Scenario 4									

The screenshot shows the Financial Fluency Tool interface. At the top, it displays project metrics: Project NPV (\$91.33MM), Project Investment PV (\$51.3MM), Project DPI (2.78), Project IRR (16.6%), and Project Payback (6 Years). To the right is a Chevron logo and a stylized oil rig icon. Below these are two sections: 'Scenario Inputs' and 'Financial Fluency Tool'.

**Scenario Inputs:**

	Value	Unit
Project Schedule (Duration)	2.00	Years
Project Capital Expenditures	\$ 65	MM
Peak Production Rate	6.5	MBD
Recoverable Resource	22	MMBBL
Reliability / Uptime	90%	
Project Operating Expenses	\$ 15.0	/ BBL
Resource Price	\$ 50	/ BBL
Working Capital Days	42	Days

**Save Scenario Buttons:**

- Save Scenario 1
- Save Scenario 2
- Save Scenario 3
- Save Scenario 4

**Financial Fluency Tool:**

Scenario	NPV	Investment PV	DPI	IRR	Schedule	Capital Expenditure	Payback	Production Rate	Recoverable Resource
Scenario 1	\$89.19MM	\$91.33MM	3.04	2.78	1.75 Years	\$55 MM	6 Years	5.0 MBD	18 MMBBL
Scenario 2	\$91.33MM	\$51.3MM	2.78	16.6%	2.00 Years	\$65 MM	6 Years	6.5 MBD	22 MMBBL
Scenario 3									
Scenario 4									

**DO:** Have participants enter inputs for Scenario 2

—

## **Would you recommend creating a new development design or utilizing the existing design for this project?**



**SAY:** Would you recommend creating a new development design or utilizing the existing design for this project?

- Even though using a new well design generates results in higher production, using an existing design may be better financially due to some of the costs associated with engineering.

---

# **What's an example of a project within your business unit where you applied standardization? What were the results?**



**SAY:** What's an example of a project within your business unit where you applied standardization?

- At times in our more standardized factory model fields, we try to standardize our design to create faster results and move execution faster even if it means sub-optimizing each individual well.

**—**

**Reset the tool + clear scenarios**



**SAY:** Now you understand how drilling and operation decisions impact company finances, as well as tradeoffs between generating higher production versus generating higher returns. Please reset the tool and clear scenarios.

**DO:** Have participant reset the tool and clear all scenarios.

## **Event 6: New vs. Existing Inventory (10 minutes)**

**Key Learning Point:** Understand the importance of cash flow and working capital, as well as how drilling and operation decisions impact both business unit and overall company financials.



**SAY:** (Read text on screen)

**Event 6: New vs. Existing Inventory**

—

You need inventory for an upcoming project and have two different ways to order it.

One option is to go through Purchasing, which will result in a direct cash outlay to a supplier. Another option is to pull existing inventory for your project. The inventory was purchased when oil prices were higher, so the cost will be greater, as the book value of these materials is more expensive. However, using existing inventory will help you reduce Working Capital Days.

—

## Event 6: New vs. Existing Inventory

### — Pay an external supplier for inventory

In your tool:

- Change Project Schedule to 3 Years
- Change Project Capital Expenditures to \$100 MM
- Change Peak Production to 10 MBD
- Change Recoverable Resource to 50 MMBBL
- Click Save Scenario 1 to save results

*Scenario 1: NPV 136.2MM| PV 75.4MM*



**DO:** Have participants enter in inputs for Scenario 1

**Event 6: New vs. Existing Inventory**

**Utilize the inventory you have on hand**

**In your tool:**

- Change Project Capital Expenditures to \$110 MM
- Decrease Working Capital Days to 36 Days
- Click Save Scenario 2 to save results

*Scenario 2: NPV 150.9MM| PV 82.9MM*

**DO:** Have participants enter scenario 2 inputs into the simulation tool

—

**Which is the better option for this project? Which is the better option for Nonagon overall?**



**SAY:** Which is the better option for this project?

- Scenario 2 costs more than Scenario 1.
- However, Scenario 2 is better from a cash flow perspective, and the cash flow savings are sizable for the business unit overall.
- Since you're using existing inventory, there is not outlay of cash out of the company, even though the project itself doesn't look as good.

—

## Reset the tool + clear scenarios

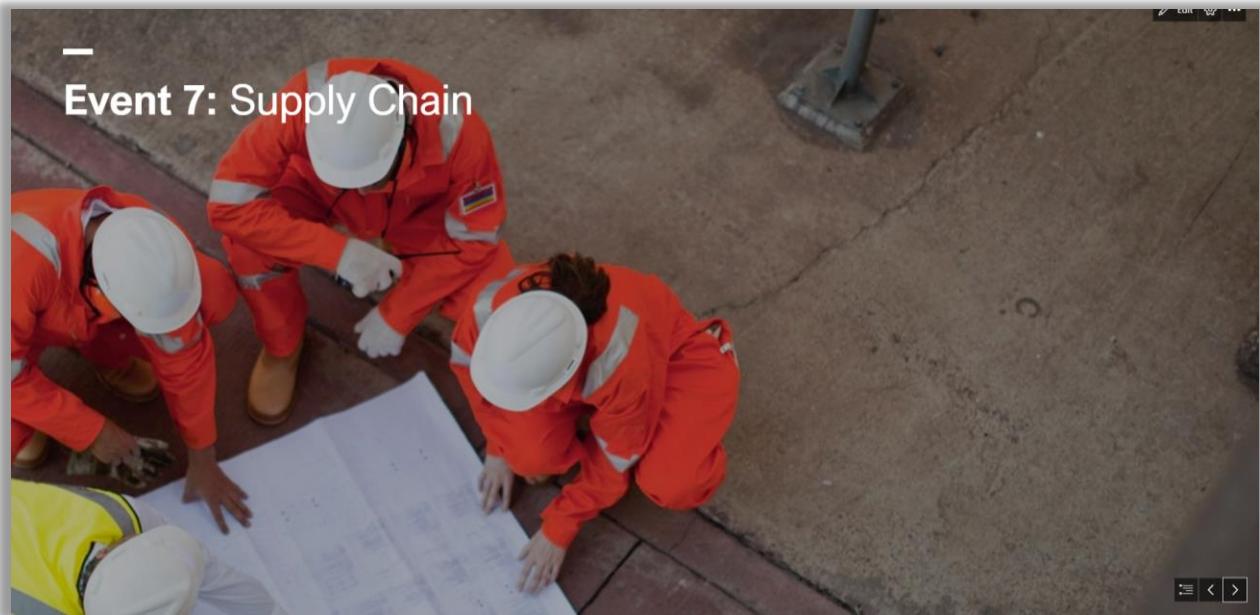


**SAY:** Now you understand the importance of cash flow and working capital, as well as how drilling and operation decisions impact both business unit and overall company financials. Please reset the tool and clear scenarios.

**DO:** Have participant reset the tool and clear all scenarios.

## Event 7: Supply Chain (10 minutes)

**Key Learning Point:** Understand the financial impact of incurring operating expenses versus incurring capital expenditures.



### Event 7: Supply Chain

You have an ongoing need for a barge to provide offshore accommodation for your project workers. Up until now, you have been paying to use a barge in the region. The most recent contract, signed when oil prices were high, gave your organization a day-rate for the barge's entire accommodation capacity, and you're the only organization in the region that has a need for the barge. However, due to decreased activity in the region, you anticipate only using 30% capacity going forward.

You can attempt to renegotiate the contract at a reduced rate, so you wouldn't be responsible for the entire accommodation capacity in the future. Another option is to terminate the contract and purchase a smaller barge for your offshore workforce to use for the next 5 years. Eliminating the cost of contracting the larger barge will lower your operating costs, but the contract's early termination clause would require you to pay a one-time fee.



**SAY:** (Read text on screen)

**Event 7: Supply Chain**

—

**Renegotiate the contract**

**In your tool:**

- Change Project Schedule to 4.5 Years
- Change Project Capital Expenditures to \$50 MM
- Change Peak Production to 5 MBD
- Change Recoverable Resource to 16 MMBBL
- Change Project Operating Expenses to \$14.8/BBL
- Click Save Scenario 1 to save results

*Scenario 1: NPV 16.2MM | PV 35.2MM*

[Navigation icons: back, forward, search]

**DO:** Have participants enter in inputs for Scenario 1

**Event 7: Supply Chain**

—

**Terminate the contract and buy a smaller barge**

**In your tool:**

- Change Project Capital Expenditures to \$55 MM
- Change Project Operating Expenses to \$14.0/BBL  
(reflects \$1.2/BBL reduction of operating expenses and one-time \$0.4/BBL early termination charge)
- Click Save Scenario 2 to save results

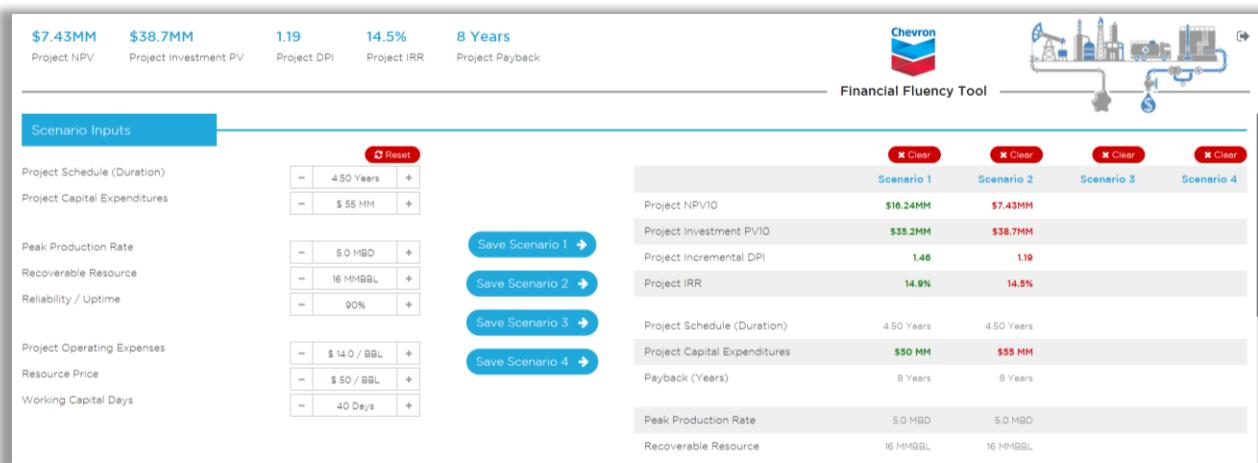
*Scenario 2: NPV 7.4MM | PV 38.7MM*

[Navigation icons: back, forward, search]

**DO:** Have participants enter in inputs for Scenario 2

# —

# Which is the better option? Which metrics stand out?



**ASK:** Which is the better option? Which metrics stand out?

- The better option is scenario 1 as all metrics are higher in scenario 1 than scenario 2.
- Operating expenses are lower for scenario 2; however, there is a fairly large upfront cost to purchasing your own barge.

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# If you were to renegotiate, what are a few questions you would be prepared to ask the barge operator?



**SAY:** If you were to negotiate, what are a few questions you would be prepared to ask the barge operator?

- Since your organization is the only organization in the region that has use for the barge, you have leverage to renegotiate the contract, as the barge owner's alternative use is nothing.
- You would want to know pricing structure for the new contract, contract length, etc.

You've found another barge operator that you're confident can give you a reduced rate. However, this operator has reportedly had multiple safety violations.

**At what level of discount would you entertain a bid from this operator?**



**SAY:** There's another barge operator you're confident can give you a reduce rate. However, this operator has reportedly had multiple safety violation complaints. At what level of a discount would you entertain a bid from this operator?

- *There's no level of discount you would entertain if an operator's had multiple safety violation complaints.*

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**Today we covered the following:**

1. Understand how daily decisions impact company financial results, as well as tradeoffs between generating higher production versus generating higher returns.
2. Understand decisions impact on company finances, as well as how to assess the value and cost of potential increased production under different oil price scenarios
3. Understand how incurring operating expenses and capital expenditures impact project and company financials.
4. Understand how contractual commitments impact business planning and results.
5. Understand how drilling and operation decisions impact company finances, as well as tradeoffs between generating higher production versus generating higher returns.
6. Understand the importance of cash flow and working capital, as well as how drilling and operation decisions impact both business unit and overall company financials.
7. Understand the financial impact of incurring operating expenses versus incurring capital expenditures.



**SAY:** Today we covered the following:

—

What is one thing you can do differently back on the job, based on what you learned today?



**ASK:** What is one thing you can do differently back on the job, based on what you learned today?