



# EMPOWERING REAL-TIME LEASE OPERATING EXPENSES (LOE)

*The Data Gumbo and  
The Carnrite Group Perspective*

September 2020

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## INTRODUCTION

Inaccurate field data and elongated payment cycles based on estimates have long afflicted oil and gas operators, making lease operating expenses (LOE) difficult to discern. The current methods for managing LOE for commodity production, chemical consumption, water haulage and disposal, fuel, power, labor, rental equipment and other well service expenses involve manual paper processes and tickets that take an average of 60 to 90 days to work through field approvals and accounting systems. This results in a lack of clarity or ability for operators to make insightful and informed decisions regarding production and/or spend.

“ *With volatile commodity pricing fluctuations atop cost structures, operators need to adopt digital perspectives to speed payment processes, eradicate paper invoices and tickets, and achieve a desirable competitive differentiator: real-time LOE.* ”

Attempts to reduce production expenses are waylaid by the current operating model chock full of inexact service estimates, payment delays, and long dispute and reconciliation cycles that obscure visibility into financial health. In other words, operators have long been trying to drive business forward by looking in the rearview mirror. Compound this modus operandi with the downturned market and it is critical that operators take a different approach.

For a long time, production has been accompanied by an ‘at any cost’ mentality, instead of a profitable mindset. The industry also shoulders hefty overhead costs structures. For example, the average onshore well costs between one and three million dollars to sustain over the course of 20 years. With volatile commodity pricing fluctuations atop cost structures, operators need to adopt digital perspectives to speed payment processes, eradicate paper invoices and tickets, and achieve a desirable competitive differentiator: real-time LOE.

## GUMBONET — POWERING REAL-TIME LOE

Data Gumbo’s industrial blockchain network, GumboNet™, executes smart contracts based on existing operational field data sources, harvesting exact information and accurate measurements to support visibility into actual spend. Smart contracts reduce friction between counterparties, eliminating inefficiencies and automating transactional events, to help operators identify waste and areas of spend that can be reduced as actions occur, not after the fact.

This means that instead of relying on field estimates to book accruals while expenses are stuck as unprocessed paper tickets or invoices, real-time LOE opens the door for operators to match contractual terms. This happens without human interface, bringing unparalleled transactional transparency and an immediacy that provides the ability to comprehensively digest variable well costs, as often as daily.

## CREATING SUSTAINABLE RESULTS

The Carnrite Group has helped a multitude of oil and gas operators reduce LOE, an undertaking made possible by streamlining existing processes, implementing more efficient operator routes, management by exception approaches, establishing clear targets and accountabilities to aggressively capture supply chain opportunities, and in finding opportunities to better leverage technology.

The next wave of operating efficiencies will require access to accurate, real-time LOE data—like the views provided by Data Gumbo’s network—to make informed operational decisions, set targets and hold people accountable for results. To maximize return on investment, companies must create a solid foundation based on real-time field data sources that integrate supply chains, allowing for appropriately structured smart contracts to drive better business processes. Actively managing change and creating a culture focused on cash flow will be critical to success.



## BUILDING A ROAD MAP

LOE is crucial to understanding the direct cost incurred in order to maintain production at a rate consistent with capital investment history of an underlying well. By using validated field operating data to trigger automated payments, real-time LOE allows operators to access accurate information and attain continuous financial visibility thereby eliminating accruals and realizing transactional certainty.

Smart contracts use pre-agreed terms derived from natural language contracts that have been translated into code and data sources like volume measurements, sensor readings, ticket logs, etc. to verify satisfaction of contract terms against set tolerances. In deploying this technology, operators can unite all of the disparate threads that go into production in one centralized location to see expenses exactly as they occur.

Actionable steps to implement real-time LOE and optimize costs include:

- Deploy blockchain technology to update traditional, old world economy systems that silo corporate views, exacerbate transactional friction and lock away vital data in rigid IT infrastructure
- Gain operational transparency as a blockchain participant with shared immutable records that support frictionless and certain transactions
- Move from manual bills, paper invoices and human dispute resolutions practices to instant, automated payments supported by real-time monitoring; vendors can be treated as strategic partners enabling change management and driving optimized behaviors
- Decrease OPEX and CAPEX while supporting improved sales through fewer underpayments from purchasers, faster collection times, and accurate, transparent payments to royalty and working interest partners yielding an increase in returns to operators





## DRIVING TRANSACTIONAL CERTAINTY, ECONOMIC PRODUCTIVITY AND VALUE

Operators are moving from an estimated forecast production model to one that involves a real-time view finally able to tie well productivity to spend. To understand exact costs as they unfold instead of depending on lagging invoices, payment delays and administratively-taxing dispute and reconciliation processes, operators are using Data Gumbo to enable transactional certainty and capture LOE in real time.

As an active partner, The Carnrite Group brings a holistic approach to human capital and organizational change management, two concepts that are integral to not only achieving real-time LOE but in unlocking higher sustainable operating cash flows.

Gone is the rear view mirror view of LOE with its vast flaws and inaccuracies. It's time operators look through the windshield at the view ahead. Start the journey to real-time LOE today.

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