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Portfolio Management—Implementing the Right Tools to Support the Process

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Selecting the best portfolio management methodology and computing tools to achieve improved return is a demanding process. The assortment of software applications available on the open market designed to assist the portfolio manager with decision-making, cover a great spectrum of capability, complexity and mathematical rigor. There are packages that focus on single opportunity evaluation, multi-opportunity evaluation (i.e. true portfolio management) and decision analysis. Others integrate opportunity evaluation and analysis modules so as to provide an overall solution. Some are tailored exclusively to an industry, managing E&P assets for example, whilst others are non-industry specific. The tools range in sophistication from spreadsheet add-ins to programs with their own proprietary database.

Portfolio theory is not a portfolio decision-maker's panacea. In fact, if not executed appropriately, the portfolio management process exacerbates the problem of low quality non-standardised information within organisations. To determine which portfolios are efficient, portfolio managers must be confident in the regulation of the single asset economics of each individual portfolio case i.e. are risks and economics of each option valued consistently between asset teams.

Portfolio management is a technique that, when suitably applied, optimises the effectiveness of the decision-making process. We propose that replacing simplistic spreadsheet analysis with portfolio management tools best aligned with your company strategy will improve performance and bring competitive advantage.

Exploration decision-making is becoming increasingly complex. In response to oil price volatility and analyst expectations, exploration managers are being forced to tailor the exploration portfolios to deliver specific outcomes. These expectations continually change requiring a re-sort of the portfolio of options.

In this more complex environment, the natural intuition of exploration managers in selecting which wells to drill tends to break down. Companies need more sophisticated evaluation techniques. It is this requirement that the software industry has responded to. Paras Consulting has been helping companies implement portfolio management methodologies and encouraging our clients to adopt portfolio tools.