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Performance Tracking as a Portfolio Management Learning Tool

As many companies have come to appreciate the need for consistency in characterizing prospect entries for a portfolio, they have also begun to harness the complimentary power that comes from calibrating estimates against actual results. Pre-drill efforts to standardize evaluations can often reveal overt examples of bias prior to portfolio selection. However, rigorous completion of the E&P evaluation process requires an element of performance tracking that arises from consistent post-drill audits of all exploration wells as well as significant development wells.

Effective portfolio management now routinely relies on steady improvement through evaluation of pre versus post-drill estimates of portfolio reserves, success rates and value. Because even 'best-in-class' companies deliver around a fifty percent commercial success rate in exploration, around half of all major projects will, in some manner, fail. The analytical review of both failure modes within past portfolios, and patterns of critical chance elements within the current inventory are also complimentary. Such panoramic perspectives help sequence and leverage technology spending and lead to monetization tactics that provide more efficient future portfolios.

Therefore calibration of the pre-drill estimates against the actual outcomes of key prospect parameters serves to: (a) increase consistency through the identification of subtle or widespread bias in company estimation systems; (b) enhance corporate learning through focus on key issues; (c) improve future estimates with further reduction in bias though feedback; and (d) provide improved predictability, which is often a key measure of portfolio management efficacy.