

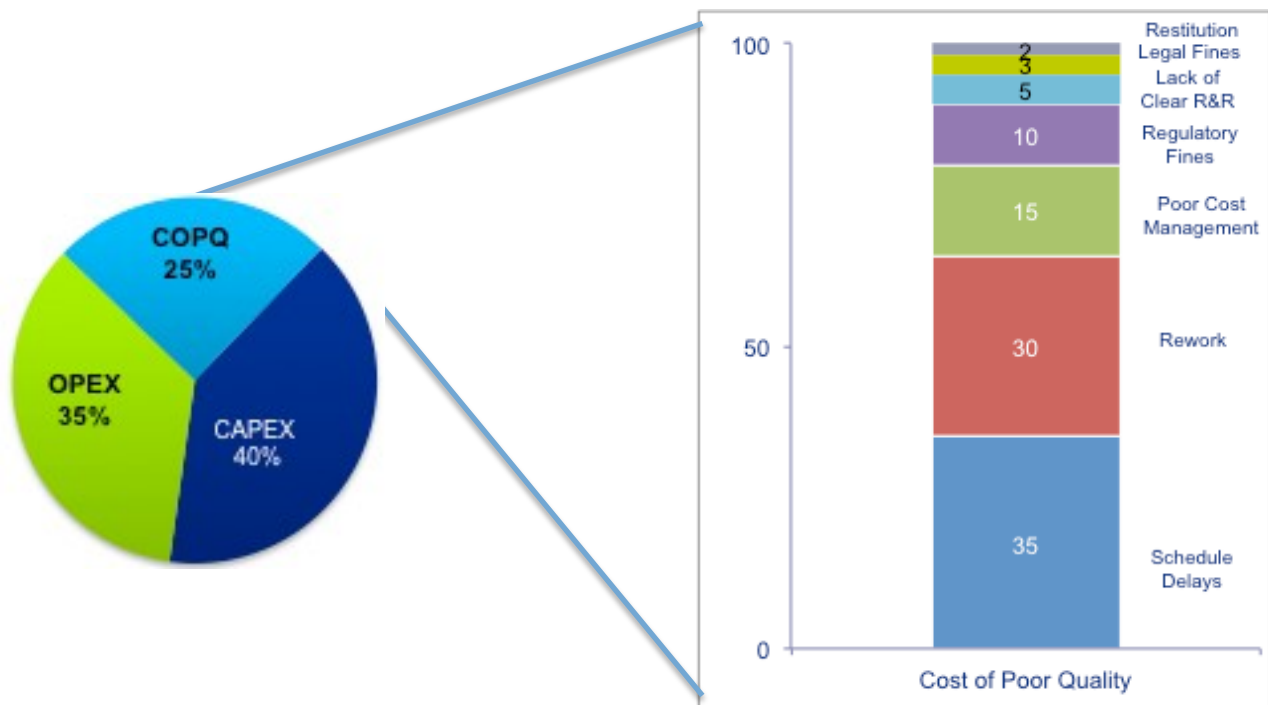
Total Cost of Ownership

BACKGROUND

Bulsard Group's primary focus is to ensure companies optimize their Total Cost of Ownership (TCO) by minimizing non-value added activities creating additional costs to operating expenses, thus decreasing return on investment. We will support the planning and execution of the major capital project by developing a foundational organizational structure that is designed to support new strategic objectives and principles, with a focus on exceeding customer expectations and reducing costs.

The Problem

The Total Cost of Ownership is defined as the total of all costs to design, purchase, construct, and operate over the entire lifecycle of a project. Most companies do not ensure a discrete focus on the "hidden costs" or the cost of poor quality, which can occur, based on poor management of risks. The Cost of Poor Quality is the total cost generated as a result of not effectively utilizing resources to deliver value to the organization. The failure to ensure quality in the development, operation and management of projects can lead to as much as 25% of your TCO, and significantly affect your return on investment and profit margins.



- **Direct Employee Costs:** Capacity, Hiring and replacement costs, Training and loss productivity costs, Compensation, including the cost of: signing bonuses, salary increases, annual and long-term bonus increases
- **Loss Profits from Lack of Experienced Staff:** Delayed or cancelled projects, an inability to implement growth and expansion plans, costs related to safety issues, costs of alternative staffing methods (consultants)
- **Strategic Opportunity Costs:** Related to lost profits associated with lack of long-term strategic vision and a short-term tactical approach to management

The Cost of Poor Quality is dependent upon the ebb and flow of productivity in an organization. By optimizing overhead costs, we can maintain the levels of productivity in the organization, thus a reduction in the cost of poor quality. In the Value Chain example above, the optimization of overhead costs can be measured by comparing baselines to actuals in the following performance areas:

- Asset Development: #/\$ of people per prospects identified
- Facilities Engineering: #/\$ of people per facilities project executed
- Drilling & Completions: #/\$ of people per wells drilled and completed
- Operations: #/\$ of people per barrels delivered
- Business Development & Planning: #/\$ of people per \$ delivered to plan
- Supply Chain & Logistics: #/\$ of people per materials delivered
- HES: #/\$ of people per resources supported in entire organization
- IT: #/\$ of people per resources supported in entire organization
- Human Resources: #/\$ of people per resources supported in entire organization
- Finance: #/\$ of people per resources supported in entire organization

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