



ERP for Midstream: How to Master and Manage CAPEX (Capital Expenditures) and the AFE process

Contact us for more information

2500 Dallas Parkway, Suite 530, Plano, TX 75093

T: 469 828 3274 · E: info@conexussg.com

conexussg.com

Challenge

Among oil and gas midstream firms' areas of exposure, the tight control of CAPEX projects may be one of the most significant – and the most open to risk. Oil and gas midstream companies are continually investing in gathering systems and processing and therefore need systems to manage the capital spend for each of their projects.

Annual CAPEX can start as high as \$200 million, and develop to as much as more than a billion dollars a year. Common investments include all aspects of Gas Gathering and Gas Processing including laying pipelines, providing compression, and building gas processing plants. For start-up firms, these investments start well before operations even.

Midstream gas companies will normally buy best-of-breed systems for gas processing and gathering. Although efficient in those areas, financial management or reporting functionality is not among their strengths.

Microsoft Dynamics provides a platform and sophisticated tools to fully integrate operational systems to your ERP. A good ERP would not only integrate well with best of breed systems, but provide full visibility of a company's financial position by providing robust

modules for Purchasing, AP (Accounts Payable), AR (Accounts Receivable), Fixed Assets, Project Control and Budgeting, and GL (General Ledger). Microsoft Dynamics is best of breed when it comes to ERP.

Staying on top of purchasing is especially challenging for midstream gas companies. AFEs (Authorization for Expenditure) and Procure to Pay are two critical areas that need specific governance.

Many growing midstream firms' end goals are either to go public as MLPs (Master Limited Partnership) or to be acquired by another MLP. It is essential that management have full visibility of their financial position at any point in time.

Solution

Conexus SG successfully helps midstream companies take control of their CAPEX spend as a seamless, skillfully managed cornerstone of their operations by integrating Microsoft Dynamics ERP solutions' strengths with their existing best of breed operational systems.

Among the benefits of using Microsoft Dynamics are:

End-to-end capital cost visibility

An AFE can be created within Microsoft Dynamics, along with all supporting documentation and economic analysis, at the materials level. The AFE can then be routed intelligently through an authorization system to various parties based upon its attributes and size.

Attributes are highly customizable, including but not limited to dollar value, location, cost center, field, chartered accounts, etc.

Highly configurable workflow within Microsoft Dynamics can allow for approval of AFEs which can be done online or via email, with the ability for approvers to review all documentation and print any information they need. The approval process is also traceable so an AFE's progress can be tracked at any stage.

Upon approval, the AFE automatically creates a project within the system and a project budget, which the company can refer to as an approved AFE.

Once spending starts against the project, the system allows users to create a purchase order, see amounts that are budgeted for the categories within the purchase order, and to have that purchase order associated with an AFE/budget. Commitments and in process can be measured against budget for accurate visibility.

A full analysis of the company's position against the AFE is available within the ERP system. Users can view the total commitment against a cost category, the total expenditure for that cost category, the effect of the current purchase order on that cost category and the remaining budget after application of the purchase order.

Microsoft Dynamics will also flag the item if the purchase order sets the company over budget.

The screenshot displays the ReQlogic web application interface. The top navigation bar includes 'My Requisitions', 'Transactions', 'Reports & Inquiries', 'Buyer Tasks', 'Setup Tasks', 'Customizations', and 'Administration'. The main form area is titled 'Requisition' and contains various fields for document details, routing, and attachments. The 'Routing' tab is selected, showing a table of routing steps.

Document Details:

- Document Nbr: 62250
- Description: CITY DISCHARGE TO T
- Date: 2/2/2015
- Status: Workflow Complete
- Total Amount: 330,900.00
- PO Nbr: [Empty]
- Stage Gate Approved: N
- Location: WASKOM
- PO, SO, AFE-B or AFE-U: AFE-B
- Expenditure by year: 2015

Routing Details:

- Requester: [Empty]
- Routing Policy: MASTER
- Company: [Empty]
- Vendor: 110034
- AFE - Project: LGL13888
- AFE - Budget: ORIG0000
- Department: LEG-CONST
- Append to PO: [Empty]
- Private: ☒
- Est Comp Date: 12/24/2012
- CT /SS/AS (G/M for AFE Rtg): G
- Cost Center Override (AFE Routing): LTGLGATHL00
- AIC Responsible Party: [Empty]

Attachments: City Discharge to T .xlsx

Notes: General notes, Notes to vendor, Notes to buyer

Routing Table:

| Step Nbr | Reviewer Name | Action taken | Delegated To | Reviewer Comments | Date | Time |
|----------|---------------|---|--------------|---|-----------|----------|
| 1 | | Routing step auto-forwarded by delegation | | | 2/2/2015 | 11:42 AM |
| 2 | | Routing step approved | | | 2/2/2015 | 1:11 PM |
| 3 | | Question sent | | Seems high for 2,200' of 6" pipe with the 12" launchers and receivers | 2/2/2015 | 1:27 PM |
| 4 | | Question retracted | | | 2/5/2015 | 11:55 AM |
| 5 | | Routing step approved | | | 2/5/2015 | 11:55 AM |
| 6 | | Routing step approved | | | 2/7/2015 | 7:35 AM |
| 7 | | Routing step approved | | | 2/11/2015 | 3:19 PM |

Smart payment processing

When an invoice is received for an item on a particular purchase order, Microsoft Dynamics pulls up the purchase order document that shows detailed line items for an easy three-way match.

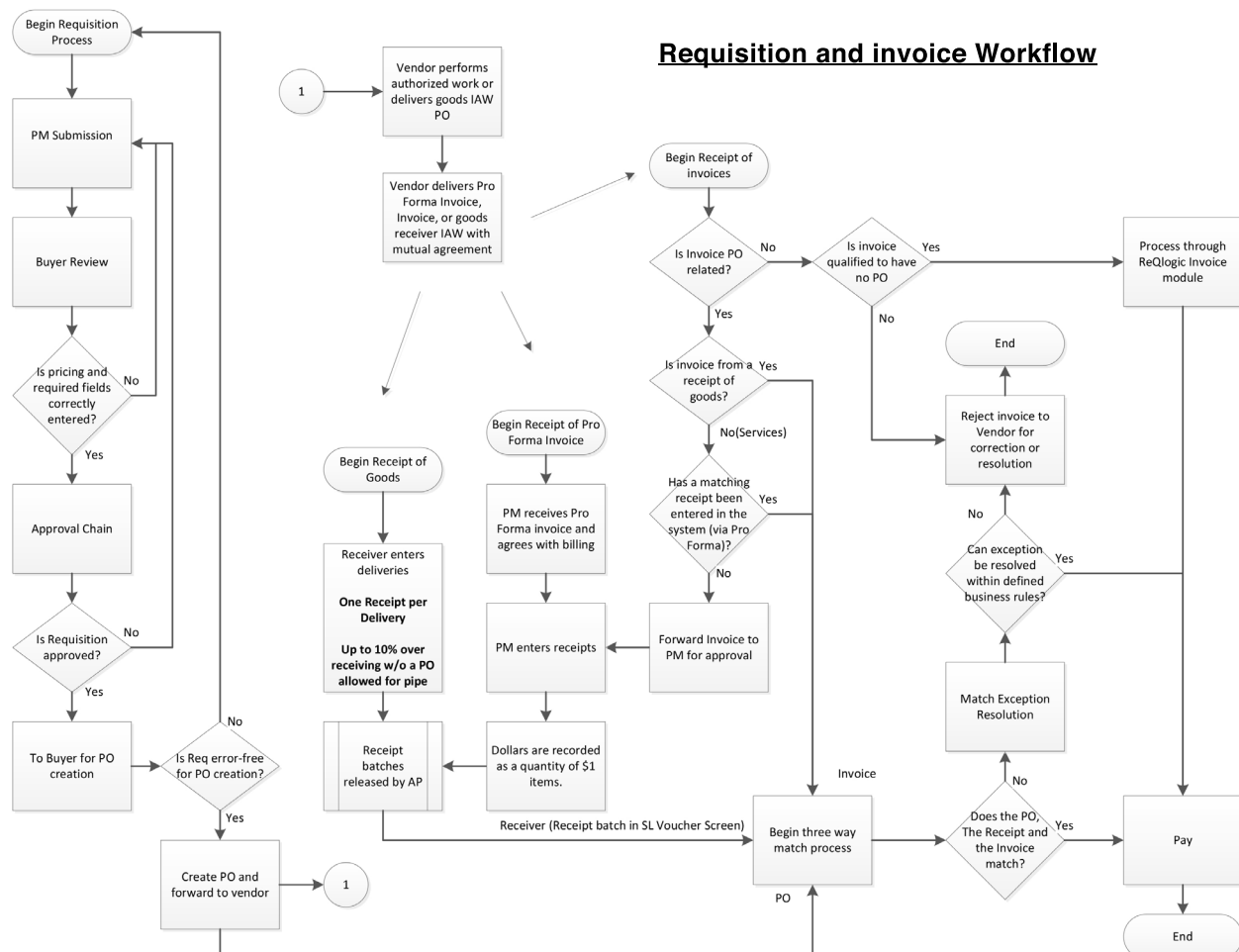
Once a three-way match is done, the system automatically creates a voucher, then the invoice can be submitted for payment, or the invoice can be routed based on designed hierarchy for final approval prior to payment.

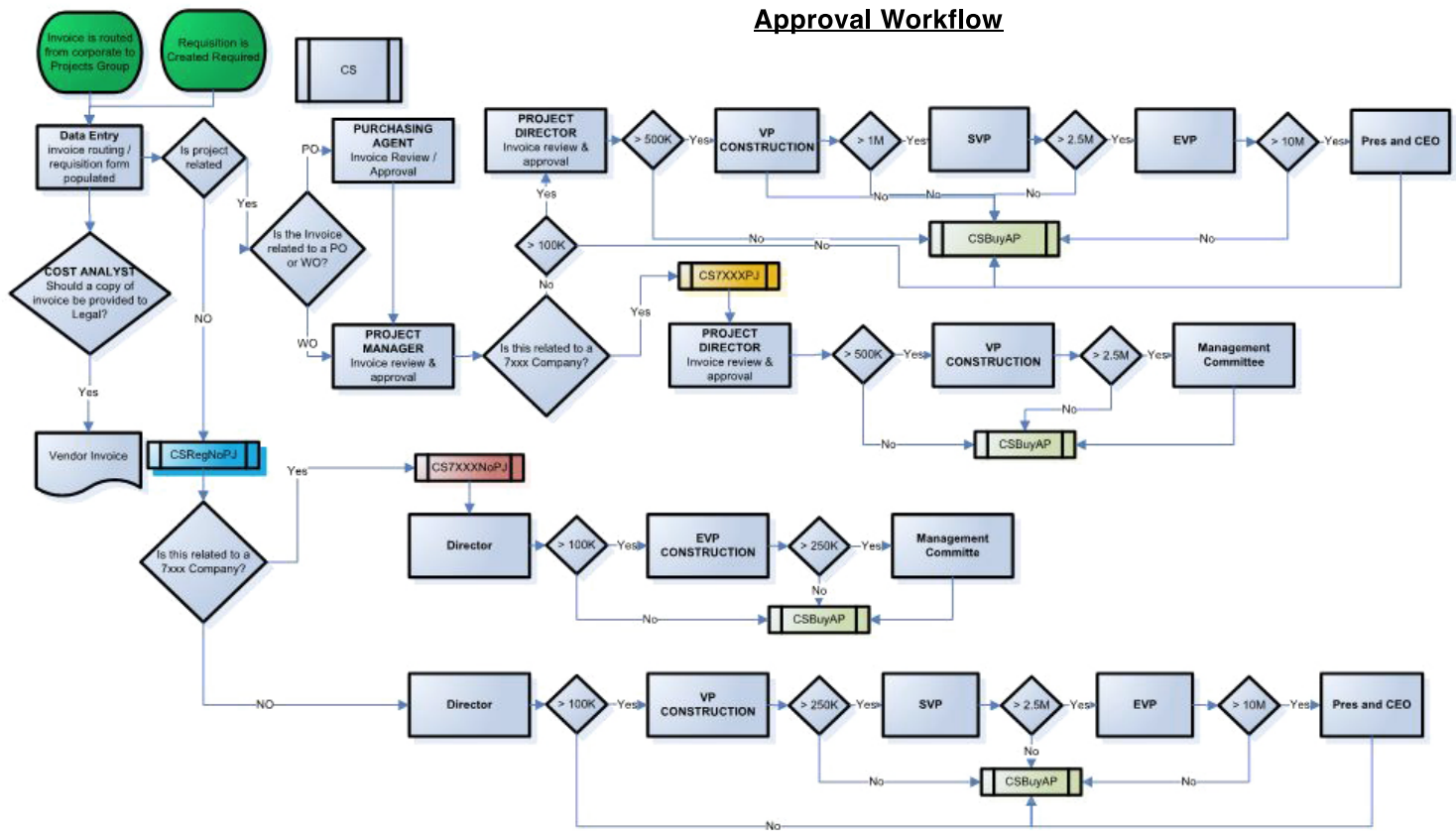
Since Microsoft Dynamics tracks everything as it happens from the creation of the AFE to the time a purchase order is created, and the receipt of the items and the processing and payment of the

invoice, users can tell at any point in the process where the company is exactly on any project. There is no need to wait for invoices to come in. As intermediate expenditures are approved, the system tells users if they are over budget or not. Expenses are flagged immediately if budgets are exceeded, so mitigation strategies can be formulated.

Sophisticated routing and multi-tier approval circuit options

Microsoft Dynamics has the ability to route any kind of purchase order, including capital with AFE, capital without AFE, OPEX or G&A according to the client's preference and policies. Companies can utilize customizable routing based on the nature of the transaction and different levels of authority, with highly configurable rules. The system can route purchase orders via different approval hierarchies based upon the nature of the item being routed.





Flexible and customizable reporting

Conexus SG has helped midstream gas companies customize reports for their unique purposes. For instance, drill down reports for AFEs can be created according to any preferred grouping, whether it's by project manager or by category. Visibility of the entire project's performance against budget can be assessed, as well as performance of each unique category in the AFE. All this information is offered online for authorized personnel to view. Visibility into commitments is key to the success of any midstream company's operations. Microsoft Dynamics gives you transparency into your expenses and the planning tools to help you forecast for what's ahead.

Call Conexus SG today

With our deep knowledge of the oil and gas midstream industry, we can help you leverage Microsoft Dynamics' functionality to create a capital control system that connects you with the information you need to power your business.