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Relay Race to Poland

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Left: Part of Chevron's concession area.



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From a position of zero upstream interests in this European country to the launch of a major exploration program in less than a year: How did Chevron pull this off?

This collaborative effort involved a project team based in London, which brought together members of Global Exploration New Ventures (GENV); the Europe, Eurasia and Middle East (EEME) operating company; Business Development; Global Gas; Chevron Upstream Europe (CUE); Energy Technology Company (ETC); and the Downstream Lubricants business in Poland.

Prior to the team's formation, GENV had developed a system to assess shale gas operations in North America, with special focus on our holdings in east Texas. "We wanted to learn from what we were doing right and apply those lessons to international opportunities," said GENV manager Brent Lockhart. "We built a test case that provided a technical basis, strategic criteria and business models for working with gas shales."

Early in 2009, senior management decided that the company should begin looking in Eastern Europe and other areas outside North America, where shale gas production had been concentrated until then. Two factors influenced the focus on shale gas: technological advances that have improved the economics of producing gas from shale deposits as well as strong global demand for natural gas.

The next step involved the creation of the multidisciplinary team in July 2009. Ian MacDonald, who heads business development for EEME, described the team's effort as "a relay race in which we needed to move quickly and pass the baton smoothly from one team to another."

Speed and smooth coordination were crucial ingredients as the team zeroed in on Poland. "The commercial work began as soon as we moved from a high-level study to a more thorough technical evaluation," said Bobby Ryan, vice president of Global Exploration. "We had geologists in the field looking at rocks in core repositories while, in parallel, people in London were working on a number of commercial steps, including permit applications and setting up a company in Poland."

Ryan added that the key to the successful collaboration was a seamless operation, in which the technical and commercial groups were "totally in synch." Chevron's senior management fostered the project's superior communication effort by providing consistent feedback and establishing early buy-in.

Basing the team in London enabled members to shuttle back and forth regularly to Poland. "We had a representative in Poland who was quite knowledgeable about the country's leasing system," said Lockhart. "And to facilitate the licensing effort, we were able to draw upon the language skills of a company geologist who was a Polish national."

The team provided regular updates of its interest to the Polish government. And when GENV representatives joined the capture team in Poland, their presence gave extra weight to Chevron's bid for prospective assets.

"The team helped to establish several key points," said Kevin Taylor, EEME general manager for Exploration. "We recognized the presence of a tremendous natural gas market in Europe that could be served from Poland. We resolved that the cost of acquiring leases in Poland would be just a fraction of the acquisition cost in North America. And we recognized the competitive urgency of moving quickly."

This urgency was underscored when our Polish geologist alerted the team to a competitor's interest in snapping up acreage on which Chevron was focusing. Again, collaboration was essential as the team determined that the potential value of the acreage justified haste – and a successful bid by Chevron.

After the team made a formal bid, the company signed its first concession with the Polish government on Dec. 10, 2009. Two other concessions followed on Dec. 29, resulting in the award of a total of 790,000 acres (3,200 sq km). The team added to its total acreage by finding a company willing to sell 290,000 acres (1,174 sq km), bringing the total stake to more than 1 million acres (4,047 sq km), all in the Lublin Basin in southeast Poland.

"It was essential that we establish a big footprint," said Taylor. "You need large acreage in which to drill enough wells to develop a shale gas play." To learn how we extract this unconventional resource view the interactive animation, at right.

We have established a new subsidiary, Chevron Polska Exploration and Production Sp. z.o.o, reporting to our Upstream Europe business unit, which will shoot seismic data later this year before beginning drilling in 2011.



IT: The New Version

Chevron's IT Transformation will take us to new levels of speed and efficiency.

The company is taking stock of its thousands of computers, servers, data centers, software programs and more. We're also integrating information technology deeper into the business to enable Chevron to achieve its performance and growth goals. Louie Ehrlich, chief information officer, explains more.

This is an interactive feature and therefore unavailable in PDF format. The interactivity is available on the Chevron intranet (<http://linerider.chevron.com>) or you may email for more information (linerider@chevron.com).

Q&A with Louie Ehrlich, Chief Information Officer (Interactive feature is not available)

1. What is Chevron's IT vision?

You know, first and foremost, Chevron's information technology vision is about enabling Chevron's overall vision. The way we state that is that we want to leverage information and information technology to create superior performance and growth for the company.

2. How does Chevron's IT Transformation fit with the vision?

The IT Transformation is really about prioritization, simplification and integration. And what we're trying to do is ensure that the IT dollars that are spent at our company are focused on the things that add the most value to the company. We also are putting in effort to simplify a fairly complex environment that has emerged over the years. And then finally, we want to put some things in place that ensure that we make conscious decisions in the future to ensure that what we simplify stays simplified.

3. Why is it important to Chevron as a corporation?

This is important to the corporation because information technology has become more and more pervasive in everything that we do. So just by definition, it's important that we do it well. Secondly, cyber security has become more and more of a threat in our environment. So we've got to manage this in a way that reduces that risk. Thirdly, we spent over \$2 billion in information technology. And so it's a collection of assets that deserves a deliberate approach, and the Transformation is fundamentally about taking a deliberate approach.

4. What does IT Transformation mean to Chevron?

The Transformation ultimately will help Chevron in a number of ways. First off, it's going to allow us to have better insights into our business operations. It will allow us to connect people, partners and businesses in a better and more efficient way. And it'll help us automate and integrate our business operations. If you take that all into account, what that does is improve business execution.

In addition to business execution, it allows us to do a better job toward our growth goals by understanding things like the subsurface of the earth better, by positioning our drilling equipment better, and the like.

5. What progress have we made so far?

Bottom line is we've created over \$50 million in value toward a \$350 million goal. So we're making great progress, right off the bat. We've done that by focusing the investments, particularly in the corporate domain, through a prioritization effort. We have simplified many aspects of the IT environment. We've catalogued and created an inventory of the IT assets that are out there and now know things like: we have 10,000 applications, we have over 170 data centers, we have over 4,000 IT suppliers, all of which we want to simplify.

And we've put some things in place like governance, like a new IT governance model, like Policy 564 changes, which is the information technology policy, and the like that's going to allow us to make conscious decisions in the future.

6. What are the biggest challenges to IT Transformation?

You know, I think fundamentally the biggest challenge centers around culture. So it's culture both with the IT function itself and also culture on the receiving end of IT, so to speak, and the business. From an IT function perspective, while it's really critical that we deliver services -- that's what it's all about -- we have to shift our mindset from one that is a service delivery mindset to one where we're really being asked to lead and be stewards of the overall IT environment at the company.

From a business perspective, when we request information technology to satisfy our business needs, we have to think about it not only in terms of what's important for the local business, but also what it does to the overall enterprise. And those are two big cultural changes that have to occur.

7. How does IT Transformation fit with Accelerate Downstream?

You know, Accelerate Downstream, in my way of thinking, accelerates the IT Transformation. The IT Transformation has always been about focusing investments -- in other words, prioritization -- simplifying a complex situation, and making sure we make conscious decisions along the way, not unlike what Downstream itself is trying to put in place.

Specifically, it will influence the way in which we go about the Transformation initiatives like focusing, for example, the supplier rationalization in a way that creates cost savings for Downstream faster, or rationalizing applications with a focus on delivering value as soon as we can to the Downstream business. But at the end of the day, it's very much aligned with it and supportive of it. Accelerate Downstream accelerates the IT Transformation.

8. How will IT Transformation affect us as employees?

You know, for employees, fundamentally, the IT Transformation, what it will deliver are excellent tools -- great tools that are in support of what they need to do each and every day. So it'll make life better fundamentally. What we need from each employee, though, is if anyone who's involved in an IT decision, it's important that we take the enterprise perspective. In other words, what is this decision going to do to the overall enterprise of Chevron?

And if there was a specific ask, oddly enough for me, it would be that people literally go read Policy 564. It's a very short policy, but it really describes what it means to take an enterprise perspective, where we satisfy the needs of the local business while ensuring what we do is the right thing for all of our company.

9: Will it be successful?

You know, what makes me really confident that this is going to be successful is the fact that we've got great alignment and support for what we're trying to accomplish. This is a major change. It's referred to as Chevron's IT Transformation, but the apostrophe is with the Chevron. This is about something our company has chosen to do. We have senior leadership behind us. We have an IT leadership function that's all about it. And because of that, I'm 100 percent confident that we're going to make this a very big success.



Shopping for Advantage

Meet our secret weapon in the war on costs: Chevron's 1,000-plus specialists in Procurement and Supply Chain Management.

Tested by roller-coaster oil prices, Chevron's growth and record capital spending, this community of professionals is making sure we're a world-class buyer of literally everything we need. And they're getting better.

What value does smart buying bring?

Chevron's Procurement and Supply Chain Management (P&SCM) community has come of age, proving its mettle under fire, focused on getting even better at the business of buying and delivering big wins.

Consider the nearly \$4 billion in cost pruned from 2008 estimates for the giant Gorgon Project in Australia. According to Mike Illanne, who heads Chevron's Project Resources Company (PRC), the Gorgon team, PRC, Procurement and local business unit collaborated to establish new cost targets after the global economic downturn.

"Where we could expect lower costs, existing bids were targeted for refreshing," says Illanne. "And we set goals for negotiating remaining contracts for goods, equipment and services. Savings were captured on new awards and based on updated assumptions for future prices."

Where else has Procurement had an impact?

By improving supply logistics in the Gulf of Mexico, P&SCM has reduced by half the need for support vessels. Consolidating relationships with a key information technology supplier will save almost \$50 million over four years. One sourcing team found \$50 million in potential savings in environmental services over two years. Another trimmed more than \$120 million from Upstream's annual global cost of supplemental staff, says Ken Riley, Supply Chain general manager for Global Upstream and Gas.

Downstream, all refineries held supplier cost summits resulting in reduced contract labor rates of 7 to 12 percent for various services. Procurement also was key to Global Lubricants' record 2009 profit, says President

Dale Walsh (recently named president, Chevron Products Americas). "Our initiatives with suppliers resulted in a significant improvement to our cost of goods sold."

In all, Chevron business units last year created a record \$2.3 billion in net value from P&SCM, including savings, avoided costs, lower inventories and forecasted gains from reliability and after-market support. That's almost 6 percent of our \$40 billion "spend" – above levels typical of best-in-class companies – says Leo Lonergan, Chevron's chief procurement officer.

How did we do it?

When oil prices collapsed and then sank to about \$40 per barrel in early 2009, Chevron moved swiftly to readjust its costs, renegotiating well over 1,500 contracts. Supplier price increases were generally denied. Upstream business units delivered \$1.2 billion in total value creation for 2009. Downstream businesses contributed another \$600 million; Technology and Services, \$500 million. Says Lonergan: "When oil cratered, we had the people and processes in place to aggressively get our costs down."

So we're just paying less for the same?

It's not about the initial cost or buying cheap, he explains. It's taking a "total cost of ownership" view and

delivering a sustained competitive advantage through fundamentals like sourcing, contracting, supplier management and reliability – perhaps the most powerful cost-management discipline.

Also key, Chevron has become proficient in “should-cost” modeling – studying suppliers’ costs to know what a fair price should be. A core element of “category management,” it focuses on where we spend the most and what we rely on most, like drilling rigs, subsea equipment, transportation and professional services.

How do we compare with competitors?

Outside benchmarking has found Chevron comparable to high-performing companies in P&SCM processes and resources, but indicates we could improve efficiency in areas such as transaction processing, said Troy Thompson, head of Procurement’s Market Intelligence (MI) group.

Internally, surveys praise advancements like MI. Last year the group began providing critical cost of goods and services data to support consistent forecasting in business plans corporatewide. The MI group also is helping big projects save on materials and services, says PRC’s Illanne.

Vital also in supply chain, says Lonergan, is improving safety. Last year, Procurement leveraged its growing partnership with PRC by hosting a supplier and contractor forum on safe work practices and related challenges. And because of the commercial interface with suppliers, delivering value “on a platform of integrity” with high ethical standards and honoring The Chevron Way in all activities and relationships is just as critical, Lonergan says.

Can we get any better?

Last year, the Chevron e-Procurement Buyer system ensured competitive prices on some \$29 billion of spend – three times the 2006 tally. And with 100 MBAs in P&SCM and 490 employees certified in P&SCM through Arizona State University, Lonergan believes we can now tackle fresh challenges.

A PRC-led team, for example, is focusing on engineering, procurement and construction services for major capital projects, a \$10 billion to \$12 billion annual cost area. Says Ed Sauve, manager of PRC’s Project Procurement and Contracting Support group: “We’re confident this more strategic focus will translate into lower costs and more predictable outcomes for ongoing and future projects.”

Lonergan also cites the Procure-2-Pay initiative, a cross-functional team working to speed payments to suppliers and make other improvements potentially worth tens of millions of dollars in savings. Even after an extraordinary year and over a decade of P&SCM improvement, he says, “We know we can get even better. We have the best team in the industry – a great foundation to build on.”