The Art of Integration... In Supply Chain

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September 2016
Supply Chain Innovation
Leveraging what we already know…

To be truly Integrated, Supply Management must not only innovate, but execute at the speed that their business partners require.
ENCANA

Transformation Complete

• “Core of the core” positions
• Returns and margins focused
  – Strong core four – over 35% ATROR
  – Over 90% of capital directed to core four
  – 100% premium return horizontals

• Leading operator in capital efficiency, relentless focus on reducing cost structures
  – G&A down 55% ($200 million/year)
  – Interest expense down 40% ($200 million/year)
  – Incremental 2016 capital at $15,000/boe/d production efficiency

• Financial flexibility and balance sheet strength
  – Reduced net debt by over $2 billion

• Multi-basin portfolio advantage
  – Culture of rapidly deploying innovation across assets
  – Enhancing supply chain management
2016 Operations Commercial Efficiencies: Measuring success as One Team

243MM Savings in 2015 with line of sight to over 300MM by Q3 2016

2015 to Q3 2016 Savings – Capex and Opex

- **Alignment:**
  - “One Scorecard”, One Number”

- **Paradigm shift:**
  - Operations’ budget validation to cost savings
Strategic Supply Chain for the Business

Encana’s strategy in building a sustainable commercial strategy beyond 2016

- **Our Path - Integrating Commercial Strategy and Operational Performance**

  The Art of Integration
  
  - Leveraging Urgency …Driving Value
    - Decrease cycle time from innovation to adoption
    - Create sustainability

- **Our Future - Negotiating from a Position of Strength**

  The Path to Execution : The Benefits of Knowledge and Transparency
  
  - Case study on Encana Desks
    - Unbundling
    - Cost Modeling
    - Leveraging Partnerships
The Art of Integration
“we do well at what we focus on”

Cycle time of adoption is usually controlled by two factors:
Urgency and Alignment

Technology Invention & Adoption Curve

Supply Management Innovation & Adoption

Integrated Team
Crude prices have experienced several periods of declines with the peak to trough taking roughly 6 to 15 months followed by a price recovery...

This one is testing all limits
Art of Integration…speeding up the cycle time….The Supply Management Process

Idea assessment: Data Analyses + Ranking + Evaluation

2016 Estimated Spend - Top 80%

Internal Demand

Market Analytics

Project Ranking

Need Urgency Opportunity

Exponential Growth

Demand vs. supply (billion lbs)

Source: IHS, IHS FracDB / FracFocus, company reports, industry sources ©2016 IHS
Case Studies of Innovation to Adoption Cycle times

Sand Management Innovation & Adoption at Encana

Logistics Management Innovation & Adoption at Encana

OCTG Management Innovation & Adoption at Encana

OCTG Pricing
Prepared Beyond 2016 = Testing Constraints

Alignment with the Business Drives successful contracting strategies. GOAL – To mitigate financial risk and cost exposures

Internal Demand
Scenario Analysis
Rigs, OCTG, Frac, Sand

Security Of Supply Model; Market Assessment
ECA Fundamentals – Commodity Price
External Cost Analysis

Strategy Development
Cross Functional Team –
SMS, Operations, Development, Strategic Planning

Strategy Execution

Market assessment and constraint modeling

SMS Alignment
Market Assessment & Constraint Model

Inputs

- Pricing Forecasts (Internal and External)
- 3rd Party Market Data
- Vendor discussions / Market Sentiment

Analysis & Demand Planning

- Encana’s Existing Contracts
- Commitments Analysis
- Market Inflation vs. Impact to Encana
- Encana’s Program Demand

Outputs

- Inflation Model by Category Weighted to Top 80% spend
- Comparison Market to Encana
- “Team Strategies” to Mitigate Inflation Drivers

Inflation Increase Neutral, Deflation

Forward Pricing Forecasts

Spend & Demand Planning

Growth Scenario to Test Constraints
Case Study: Implementing Encana Sand Team

- Fully integrated Supply team
  - Business, technical, operations
- Internal Support at all levels
  - Defined goals
- Flexible to changing market
  - Model adaptable to our plays
- Willing to hit the Reset Button

Adhoc Demand – Solution Execution

Take or Pay Sand Contract
Take or Pay Terminal contracts

2010

2014

Sand Storage
Mine to wellhead contracts for 6 plays (sand, rail, barges terminals, trucking)
Dust control

Stakeholder buy-in per Operating Area
Field Execution 3 of 4 Core Plays

2014

Integrated Model

Organization Reset
Contract renegotiations (mine, terminals, logistics)
Evaluated Swap 1 play out and 1 play into sand management model

Credibility
Innovation
Competency
Trust
Adoption

Evaluate
Buy-In

Assessment
Demand & Market

Execution
Delivery
Invoicing

Vendor Selection
Contract

Adoption

Integrated Approach to Cost Management
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Art of Integration
Case Study – De-Bundling the Frac ticket

MAJOR D&C CATEGORIES

Completion Services
Drilling Services
Fuel
OCTG
Completion Services
Drilling Services

Frac

FRAC

25%
43%
11%
21%

PROPPANT

19%
34%
7%
40%

We know what to manage - now how?

2006
2015 +

Tactical “Purchasing” Category Management Strategic Sourcing
Art of Integration
ECA Sand Management

Understanding and managing the key Frac ticket drivers has resulted in 44% sand savings.
Art of Integration
Building a Sand Foundation – keep it simple

• Understand Supply Chain
  – Determine what will be internally managed

• Build the team – Alignment
  – Targeting specific competencies

Most teams stop here

• Integrated Execution
  – Onboarding stakeholders

**Diagram:**
- **MINE SUPPLY** ➔ **RAIL** ➔ **TERMINAL** ➔ **TRUCKING** ➔ **STORAGE**

- **Mine Contract**
- **Terminal Contract**
- **Logistics contract & ECA management**
- **Wellsite contract & ECA management**

- **Commodities Manager**
- **Sourcing Specialist**
- **Business Analyst Finance**
- **3 Logistics specialist**

**Notes:**
- Art of Integration
- Building a Sand Foundation
- Keep it simple
- Most teams stop here
- Integrated Execution
- Onboarding stakeholders

**Sources:**
- MINE SUPPLY: RAIL: TERMINAL: TRUCKING: STORAGE
- Mine Contract
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**Keywords:**
- Supply Chain
- Alignment
- Competencies
- Integrated Execution
- Onboarding stakeholders
SMS Logistics – Canadian Cost Savings Drivers

Encana maintains competitive pricing, however the cycle time from innovation to full adoption was still slow, ~8 years

Pricing performance is better than market due to: Leveraging centralized negotiations, category management and how vendors are awarded contracts
Encana maintains competitive pricing, however the cycle time from innovation to full adoption was slow, 10 years to internalize desk into Encana and eliminate spend leakage.

Market data confirms ECA’s low cost supply, supported by distributor data and unsolicited bids.
Translating Action in Results

• “While we definitely work to reduce costs, it’s the combination well cost and productivity that is the real driver of returns

  • *Mike McAllister COO Q2 2016 conference call*

• “Our relentless focus on efficiency, built on a culture of innovation are clearly delivering tangible results”

• “This quarter, we continued to be beat our guidance across our business. The combination of our cost savings, execution performance and the quality of our core four assets are driving higher returns. We are reducing cash cost, increasing capital efficiency and increasing production in our updated guidance.”

  • *Doug Suttles CEO Q2 2016 conference call*

Source: ECA Q2 conference call transcripts
What is Next for Supply Chain?...
Imagine the possibilities

Real Integration: The power of using all our skills
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- anticipated cost savings by Q3 2016
- estimated supply management spend and demand, including OCTG spend
- expectation to mitigate financial risks and cost exposures
- forward pricing forecasts
- sand management and the anticipated outcomes

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