

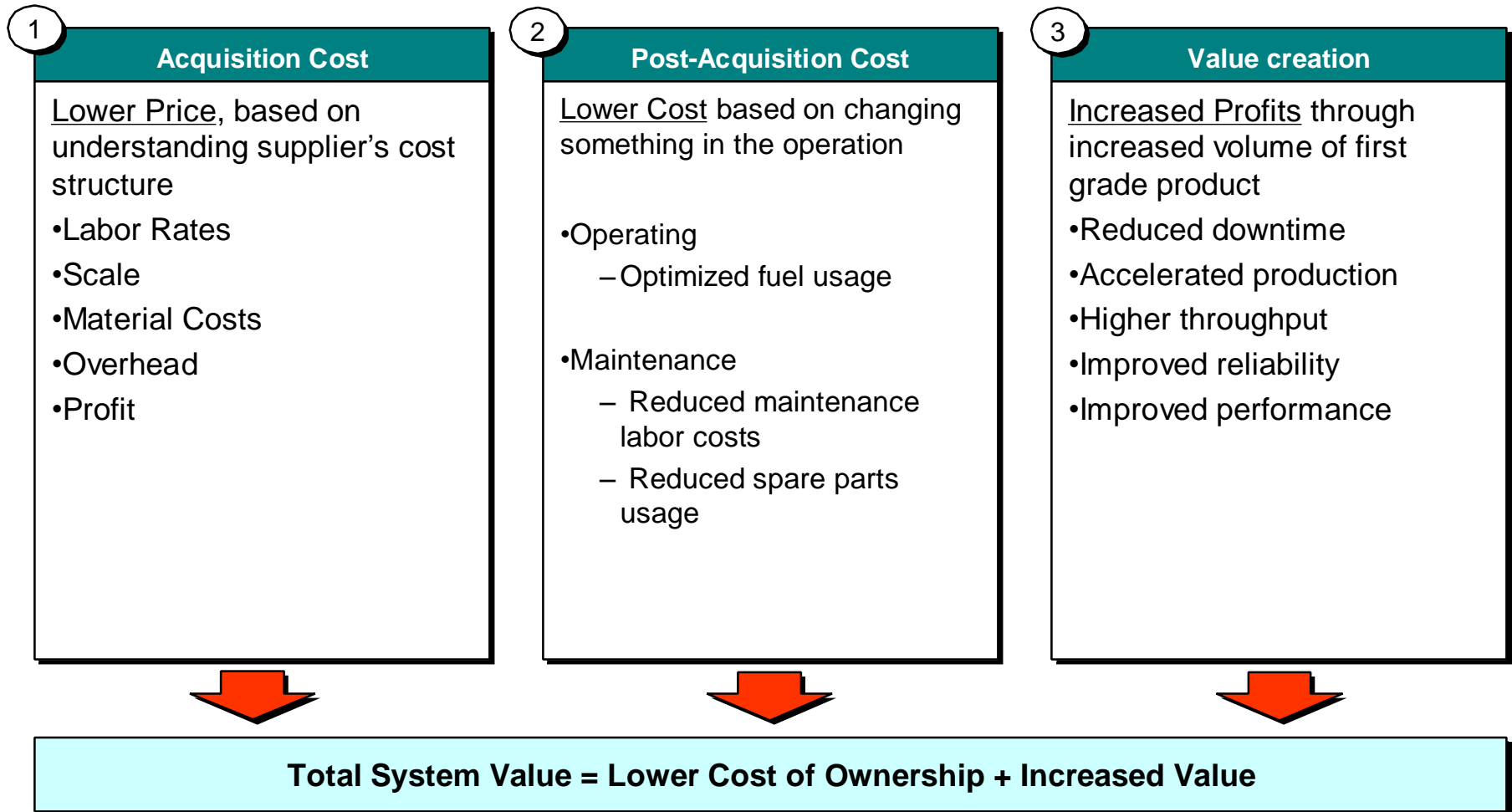
Outsourcing Compression Services

Determining a strategy that best fits your company's specific needs requires weighing all of the pros and cons. Joint goal alignment and establishment of Key Performance Indicators (KPI's) are imperative to ensure each party's objectives are satisfied and to minimize both scope & cost creep.

Outsourcing Strengths	Outsourcing Weaknesses
Minimize company employee costs (training and maintaining a skilled work force) for a non-core business.	Decrease internal expertise, knowledge loss weakens ability to manage, potential for lower quality skilled workers
Predictable short term costs	Unpredictable in long term (post contract expiry)
Access to technical expertise	High supplier personnel turnover / conflicting goals
Guaranteed uptime	Not measured/managed consistently, may have conflicting goals -want volumes & efficiency, limited CBM, producer absorbs all risk
Flexible for expansion and or changing conditions	Expensive to change equipment/service provider after installation
Suppliers organization structured to drive lower cost services	Interests/Goals miss-aligned, get what you pay for
Minimize upfront capital and preserve for other projects	Increase in OPEX , financing at higher cost of capital. Reduced ownership, pay for units multiple times.
Availability of equipment in timely fashion	Requires forecasting discipline and communication, mark ups on parts and third party services.
No company warehousing -spare units & parts	Supplier may not manage spares effectively or provides non-standard equipment = inventory sub-optimization
Operations assistance	Reduced in-house control & coordination, duplicate call outs for down equipment
Drive standardization of packages and processes (acceptance testing, CBM, emissions documentation)	Cost adders or inability to meet company specifications/requirements
All in one rate (Lease with Full maintenance)	Risks are passed through to company with limited down side for supplier

Life Cycle Cost Structure – TSV

Total System Value should be used to drive strategy



Age of installed equipment

- Importance of equipment age to operational integrity/reliability?
- Common complaints for older equipment
 - Increase in unscheduled maintenance
 - Not fuel efficient vs. new
 - Repair delays due to parts availability
 - Emission concerns
 - Limited automation
- More dependent on providers Maintenance program
 - Strong vs. weak maintenance program

Objectives & Drivers

Requires a balanced approach of addressing both Company & Supplier operational drivers while working toward our business objectives via the sourcing and management of our external spend.

Company Objectives	Company Drivers	Supplier Drivers
Assurance of Supply	Equipment / Service Availability	Forecast/Commitment
Reliable Equipment	Mechanical Availability	Standardized Packages Tiered Pricing-(Fleet/New) Minimize maintenance expense
Focus on Throughput & Efficiencies	Optimization -Volumes, HP utilization, Fuel efficiency, Technical support	Performance Incentives Fixed Margins
Performance Measurement	Supplier management	Risk/Reward KPI's
Better than Market Pricing	Cost per HP (internal/external)	Longer Primary Terms Increased HP
Incorporate HSE	Core Value / Compliance	Govt./Customer Compliance
Maximize Asset Usage	Flexibility to condition changes, Equipment variation, Surplus utilization	Maximize Fleet Utilization Expand product offering
Operational Control	Outsourcing decision, alignment with PM's, improve response time, manpower constraints	Minimize scope creep & call outs
Capital/Expense Rigor	Outsourcing / Lease vs. Buy Economics	Labor quality/cost