

James P Langley

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Mr. Langley is an independent energy consultant based in Houston, Texas. His practice focuses on business analysis related to refining, transportation and other facets of the downstream industry. Typical clientele are executives of operating companies or professional service providers to the executives. Jim holds a Bachelors degree in Chemical Engineering and a Masters degree in Business, with emphasis in marketing and finance. He has worked extensively on the international scene, traveling to over 40 countries, and possesses reading and speaking skills in Spanish.



WORK EXPERIENCE

Mr. Langley formed Langley Associates LLC after having consulted with Shaw Stone & Webster Management Consultants for several years, where he was a vice president. Prior to Stone & Webster he was Director of Energy Consulting for the accounting and financial services firm of PricewaterhouseCoopers and was that firm's subject matter expert on downstream and industry issues. In that role he acted as advisor to the broad financial advisory services offered by PwC, and traveled frequently to international offices in South America, Europe, Russia and Asia in support of the firm's clients.

Joining the industry in 1975 with Gulf Oil, Jim progressed through hands-on experiences in refinery operations, capital planning and plant economics, crude supply and trading and shipping operations before promotion to the downstream strategic planning group. He provided refinery economic analysis to oil trading groups, ran the lifting program for Gulf's crude oil production operations in West Africa and the North Sea, and developed a refinery competitor analysis model. After a two-year transition period with Chevron, post-merger with Gulf, he joined BP North America as director of planning and business analysis, where he was responsible for analysis of BP's expansion goals in the western US.

In 1989 he joined the Permian Corporation, then the largest independent gatherer of US domestic crude, as director of new business ventures. He established a business analysis program to examine and rank all purchases at the lease for profitability, and negotiated a contract with a South American crude supplier for the incorporation of foreign crude into Permian's all-domestic portfolio. Later, in preparation for the sale at auction of Permian, Jim wrote the offering memorandum and worked with investment bankers to qualify prospective buyers and stage the auction.

As Chief Financial Officer for a small, privately held specialty products company in the industry, Jim renegotiated a complex debt arrangement, installed a new financial accounting system and developed metrics for an optimized marketing program. He joined the consulting industry in 1994 to work with Coopers & Lybrand, predecessor to PricewaterhouseCoopers.

REPRESENTATIVE MAJOR PROJECT EXPERIENCE

BUSINESS ANALYSIS

Mr. Langley focuses his experience and interest on the business of refining and the downstream. To each of his projects he brings an understanding of the chemical and physical processes employed, but also the experience in managing other aspects of the business for his clients. Examples include:

- **ASSET COMPONENTIZATION:** Recent changes to financial reporting standards have increased auditor interest on the issue of impaired assets, and reasonable estimates of remaining life. For one client, the solution was to address attention to its assets in greater detail, and to develop assets descriptions, values and lives for components of historical major assets categories. Mr. Langley provided engineering and operations expertise, and developed a schedule for valuation and reasonable lives of the components recognized. He combined the componentized information in such a way that asset lives and depreciation going forward were reasonably determined, but without the need to restate prior financial statements. The auditors were kept advised of all changes in assumptions and calculations, and accepted the revised approach as reasonable.
- **TAX DEPRECIATION STRATEGY:** Teaming with tax professionals at a Big 4 accounting firm, Jim brought the industry understanding to create a new approach to depreciation for petroleum refinery assets. The strategy provided accelerated depreciation and economic value to his clients, and provided a means to look at capital deployment from a new vantage point. Far from being a “loophole,” the approach works within established tax procedures, and has strong precedents in federal court. The project illustrates the advantage of working well within multi-disciplined teams to achieve value.
- **FRAUD AND CONTROLS ANALYSIS:** Mr. Langley was retained to conduct a review of internal controls and investigate allegations of theft and fraud at a refinery in Russia that was recently acquired by a large oil company. He took a team of engineers, accountants and controls specialists to Russia to interview management and plant personnel, map document flow and reporting methods, and merge his findings with that of other similar study teams. The project required an understanding and acceptance of unusual business practices, inefficient documentation and cultural differences. Management used the findings to adjust personnel and oversight, and to decide on future investment at the facility.
- **BIOFUELS:** For prospective investors in biofuels, Jim provided an analysis of palm oil and soybean oil markets, process technology and the resulting biodiesel. Combining the information into a cash flow analysis, including federal tax credits, he was able to alert them to unforeseen potential risks to the success of the project.
- **PIPELINE BENCHMARKING:** Jim collaborated with a European firm to gather and compare information to benchmark the operating and maintenance performance of natural gas pipeline systems in fifteen European and Asian countries. He brought

engineering and maintenance insights to the project that, combined with statistical analysis of the collaborating firm, provided insights to the clients for the improvement of their businesses.

- **VALUATION/ALLOCATION under FAS 142 and 157:** For a European refiner Jim provided a post-acquisition valuation of tangible and intangible assets and goodwill under the requirements of FAS 142. Later, he updated the valuation to allow the company to remain in compliance with FAS 157 for fair value measurement of assets. Both processes were documented to the satisfaction of the company's auditors.
- **TRADING AND RISK MANAGEMENT:** For two oil companies involved in crude oil, products and natural gas trading, Jim was asked to drill into trading operations and practices to explain why trading assessments of profits did not match that found by the accountants. His experience in trading and accounting allowed him to quickly understand the internal communication issues, and to point executive management to the problems. In one case trading strategy was sharply modified; management was changed in the other.
- **MARKETING INSIGHTS FOR ENGINEERING:** For an engineering company, Jim explored refined product markets and prices for investment opportunities in the industry. With this insight to the opportunities that operating companies foresee, the engineering company was better prepared to tailor its services and skills to its clients.
- **NON-DIVERSIFIED CRUDE SUPPLY:** For a European refining company, Jim was retained to provide suggestions to improve profitability. Beyond profits, Jim advised that the company was overly dependent on supply of Russian crude oil through a single pipeline system. He provided an economic analysis of alternate sources of crude oil for the refiner, and insights into supplier alternatives that would assist in negotiating a less risky supply.

PROJECT MANAGEMENT

Investors often have the need for reliable, interim management of a business or project until the business climate changes and permanent staffing can be made. Mr. Langley's knowledge of the industry and business generally allows him to function effectively in these environments, where he leads with a bias for action. Examples include:

- **URANIUM MILL TAILINGS CLEANUP:** When his employer was named trustee for a bankrupt uranium mill and the mill tailings pile, Jim was named project manager to implement the approved clean-up plan. He worked with contractors approved by the Nuclear Regulatory Commission and, within three months, began the remediation planned years earlier. All of the most highly radioactive sites on the property were entombed within six months, dewatering was begun and surface coverage complete within a year. The remediation plan was modified by Congress when it voted to accept the project into the DOE's perpetual care program. Jim maintained communications with state and local officials, and kept the site within NRC standards through the legal transfer of the property.

- **ENERGY SERVICES COMPANY CFO:** When an operating company eliminated two levels of executives in its energy services organization, Mr. Langley stepped in to serve as acting CFO until an executive search could identify and recruit permanent executives. In that role, he re-established an accounting process that allowed issuance of quarterly reports, separated two businesses previously merged so that one could be spun off to investors, and implemented a multi-state asset tracking system to allow proper filings of state returns. He also worked with external advisors to establish a system for development of forward curves and mark-to-market pricing for commodities. After five months, the company found and retained a permanent CFO.
- **HOUSING INSPECTIONS IN NEW ORLEANS POST KATRINA:** Jim's employer was tasked with the inspection and clean-up of properties in the city of New Orleans, and Jim was placed in charge of residential housing inspection. He quickly organized teams of inspectors, recruited from professionals and interested local residents, assisted the Corps of Engineers with development of a training program, and began commissioning inspectors to visually inspect every house and apartment in the city. Within five days he had 100 inspectors in the field documenting the condition of each property, and logging the findings into a database. Within five weeks, over 150,000 homes had been inspected, allowing the electric utility and city officials to better plan for the clean-up and repair efforts.

PROJECT DEVELOPMENT

Process industry project development goes beyond the physical definition of the business, and involves anticipating the needs of financial institutions, staffing and employee training, regulatory compliance and communications. In short, it must address all of those issues that convert steel and concrete into a sustainable business.

- **WEST AFRICA REFINERY:** Mr. Langley has worked with project developers and interested parties to define a process scheme and determine all-in capital costs for a refinery to be built in West Africa. Based on a market analysis of the region, he recommended use of a regional crude supplier and a product slate for export to nearby Nigeria, perennially short of gasoline and diesel. He met with government officials, visited proposed sites, and prepared a plant layout scheme to best utilize the space and coordination opportunities with a neighboring refinery. Subsequently he developed an implementation plan to establish Equator Principles and environmental assessments, regulatory and compliance needs, and banking, accounting and financial reporting requirements.
- **LOUISIANA GRASSROOTS REFINERY:** Mr. Langley worked with a potential contractor and the Louisiana Department of Economic Development to develop a process scheme and economic analysis to describe the development of a large, grassroots refinery to be built in Louisiana. The effort projected capital costs, profitability, increases in state and local taxes, and job creation for direct and indirect additions to the local workforce. The preliminary site, construction logistics, oil movements coordination, potential customers and supply chain issues for crude supply

from Kuwait were weighed and presented to government and industry officials during a trip to Kuwait with the Louisiana Governor.

LITIGATION

Attorneys often find it essential to quickly understand the commercial, technical, operational and broad business practices of their client's industry. This understanding is pivotal to assessing the risks and value of the case in large commercial litigation. Mr. Langley has assisted attorneys in such instances, as is illustrated by the following examples.

- **CRUDE OIL ROYALTIES:** A class action lawsuit was filed on behalf of royalty interests, alleging under-pricing of crude oil as it was removed from the lease. Mr. Langley was retained to advise attorneys for defendant oil companies (a large joint defense group) as to industry practices for pricing and payments, and to reconcile the differences in local and regional prices with respect to quality, location and other unaccounted for risks assumed. The data management requirements encompassed ten years of monthly lease level data from thirty companies, considering multiple grades of crude oil and changing business practices over the period. He was deposed in a single party "test" case, and prepared analyses for the group in anticipation of trial. The cases were ultimately settled for an amount within one percent of the originally paid prices.
- **PIPELINE THROUGHPUT MAXIMIZATION:** Two companies owned a pipeline jointly, with one, the operator, having a duty to operate it at maximum capacity at all times. The non-operator alleged that this duty was not met, and filed suit. For the operator, Mr. Langley was retained to review the operations and form an opinion as to whether maximum throughput had been achieved. Recognizing that "maximum" is influenced by many factors, he drew from client engineering, maintenance, operating and accounting records to reconstruct the operation of the pipeline over a 27 month period, and to calculate a theoretical "maximum" for comparison to actual operations. The pipeline simulation, created in one-minute segments, showed that the pipeline had operated within one percent of its theoretical maximum for the entire time. The parties settled amicably.
- **PIPELINE LOSSES IN TRANSIT:** A pipeline company did not clearly define in its tariff the types of raw hydrocarbon that could be injected into its pipeline, and allowed material that ultimately damaged a receiving party's refinery. While not opining on the tariff issue or refinery damages, Mr Langley successfully explained how crude oil is accounted for in pipelines and that the pipeline company did not steal or under report crude oil in transit.
- **VALUATIONS BASED ON PROJECTED EVENTS:** For a company involved in the hostile acquisition of an integrated oil and gas business, the target's management and board of directors refused to support the buyer's tender offer for the target's publicly traded shares. Management stated that their forward business plans were worth considerably more than the current market or tender value. Over a four week period Mr Langley led a multi-disciplined team of industry experts through each segment of the

business and its plans, and compared the key assumptions to company history and industry projections. This in-depth analysis showed the best, worst and most likely outcomes for management's plans.

- **ENERGY TRADING INVESTIGATIONS:** For a large client under investigation for conducting "wash trades" in its energy trading business, Mr. Langley lead a team of analysts to read and document the individual trading log books from a two-year period, for the entire trading organization. This intensive effort was expended over a brief period of time so that attorneys could better plan their actions. Review of the findings, coupled with an explanation of good controls and management practices, led to dismissal of certain traders, significant scale back of the trading business, and ultimately successful settlement of the cases.
- **REFINING BUSINESS VALUATION:** For an international client involved in a dispute regarding the value of an integrated refining and marketing business, Jim provided replacement cost, depreciated cost and comparable sales transaction for each segment of the business. An assessment of maintenance practices and effectiveness of marketing was used to support the overall valuation. The parties used the analyses to conduct and conclude an arbitration proceeding.
- **REFINERY LOST PROFITS:** A refiner claimed business interruption losses related to the delayed startup of a major capital investment. Working for the attorneys representing the EPC contractor, significant discrepancies were found in the refiner's claim for damages, largely from failure to consider the overall business impact of the delay. Mr. Langley requested additional, specific documents related to the overall business and found that the losses were far less than claimed. By approaching the claim as a business investigation, rather than an engineering investigation, attorneys and the court learned that while operations may have been impacted, profits were not.
- **SUITABLE FUEL WAS UNAVAILABLE:** A manufacturer of special-purpose vehicles sold and delivered several such vehicles to a buyer in the Middle East. The vehicles required ultra-low sulfur diesel if operated in the US or Europe, but ULSD was not mandated for use in the buyer's country. The buyer asserted that the product was defective, and claimed that no suitable fuel was available. As consultant to attorneys for the manufacturer, Jim studied the local and regional markets and found several refiners and suppliers who could provide ULSD, and do so on a cost-effective basis.

PUBLIC SPEAKING

Communication is important in informing those who are interested in the industry, but lack the in-depth understanding. Mr. Langley has spoken frequently to large and small groups on topics of current interest. Examples include the following.

- **CRUDE OIL ROYALTIES AND UNACCOUNTED FOR RISKS – GAS DAILY - 1998:** A presentation of the nuances of price determination for crude oil in the US, including the well understood impact of quality and location, and the less well understood costs of price risk, arbitrage of differing terms, and the effect of lot size.

- **HOW ENRON CAME TO BE – HOUSTON BAR ASSOCIATION - 2002:** A perspective on the seduction of trading profits in a traditional operating company, and how the use of newly available personal computers accelerated the growth of trading as a business line, well in advance of the management controls necessary for its monitoring.
- **SARBANES OXLEY AND THE IMPACT ON ENGINEERING PROCESSES – SPEE - 2004:** A background on SOX, its impact on financial statements, and penalties for non-compliance, and how the need for adequate controls around purely financial processes also impacts engineering calculations and estimates of proven reserves.
- **OIL AND GAS FUNDAMENTALS AND MARKET DYNAMICS – 2005:** A training program conducted for PTT Thai Oil, Bangkok, for accounting, finance and treasury staff and management. Presented as part of a company-wide risk assessment analysis.
- **REGULATORY ENVIRONMENT AND SARBANES OXLEY – AGENCIA NACIONAL DE HIDROCARBUROS - 2005:** A discussion of the parallels between a properly constructed regulatory environment and the enhanced control environment required under the US Sarbanes Oxley regulations.
- **OIL SHALE TO SEC QUALIFIED RESERVES – SPEE 2009:** A discussion on the chemical changes necessary to transform shale oil into synthetic crude oil. The 2008 revised SEC definitions for reportable reserves allow inclusion of “coal and oil shale that is intended to be converted into oil and gas as oil and gas reserves.”
- **SYMPOSIUM INSTRUCTOR - University of Texas at Dallas – 1994 – 2012:** Mr Langley teaches the refinery operations, economics and risk management session of the annual UT Dallas “Advanced International Oil and Gas Accounting and Finance Program”, offered to mid-level international oil and gas executives. He developed the refining section while at Coopers & Lybrand, and has continued to provide his services to the University.
- **WORKSHOP INSTRUCTOR – US EPA, et. al. – 2016:** Mr Langley created and taught a workshop on the economic and accounting issues critical to small refiners. His experiences in the industry brought a combination of engineering, accounting, capital investment and business necessities for refiners, allowing regulators and interested parties to better understand this segment of the industry.