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CASE STUDY



Pipeline Cost Benchmarking and Modeling Case Study



ABOUT THE CLIENT

Industry	Oil & Gas
Revenues	Approx. $100 billion
Employees	Approx. 80,000
Location	Americas
BSI Service or Solution	Project Cost Estimating

Key Challenges

- EPC firms were charging above-market prices for pipeline construction due to in-country conditions
- The client wanted benchmark costs for similar pipelines to negotiate the prices down to market levels
- No pipelines were exactly the same, complicating cost comparisons
- The price of steel changed dramatically over the construction time horizon

Why BSI was Selected

- Industry expertise in pipeline construction
- Detailed pipeline cost model
- Clear "reference projects" that left no ambiguity about the specifications of the benchmark projects or the estimated cost
- Economic data and models that could "normalize" the cost of other pipelines to the one being proposed

Project Scope

- "All-in" cost: Engineering, procurement, and construction costs, plus profit and contingencies
- Detailed cost break-outs
- Sensitivities for parameters such as pipe diameter and thickness, terrain type, soil type, single vs. dual pipelines, etc.
- 10 years of pipeline project comparisons, from 50 to 5000 km long

Project Approach

- Cost benchmarking
- Cost modeling, including baseline costs, parametric comparisons, and sensitivity analyses
- Analysis and reconciliation of discrepancies
- Adaptation of costs to local ("in-country") conditions
- Presentation of detailed costs

Financial Benefits Realized

- $9.6 billion savings on $40 billion of potential expenditure ($230b capex "vision")
- 24% savings on selected categories of equipment
- Payback: 380:1

Operational Benefits Realized

- Facilitated capital budgeting
- Opened up an intelligent dialogue with construction firms
- Clarified which aspects could be done locally at economical cost levels, thereby increasing local content

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