Costs & Technology **Case Study**

Optimizing project CAPEX & timing to take advantage of market conditions

Situation

A large Middle East NOC delayed a number of upstream and refinery projects in its portfolio as a result of the significant drop in the oil price. Optimization of the projects through value engineering and revised location led to changes in the project scope. Market conditions improved and reduced project costs were expected if the company could take advantage of the lower equipment, material and labour costs.

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Action

Upstream Oil & Gas Consultants:

- Leveraged IHS Markit cost trends from the Upstream Capital Cost Analysis Index to update project cost estimate to represent the current market
- Reviewed the basis of the original estimates and the changes required from the location change and each of the value engineering improvements
- Determined the impact of each change on the base estimate to build up a detailed estimate of the revised project
- Benchmarked these updated cost estimates to those for similar projects executed by their peers
- Used forward cost forecasts under each of the IHS Markit future scenarios to determine the optimum time to proceed with the project to gain the best advantage from the market conditions

Result

- IHS Markit determined that the combination of value engineering scope changes and the lower market prices resulted in a project estimate of some $2 billion below the original estimate
- By selecting the optimum time to undertake the project, it was possible to take advantage of the reduced costs in the market but also be ready for when the oil price increased to maximize the project economics
- Identified when the key decisions would have to be made in order to maximize these advantages
- Identified procurement timing and strategies to capture the best market conditions
- A project which was uneconomic on the previous estimate could now proceed.

IHS Markit