

Achieving Predictable Project Costs in an Unpredictable World

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Why Be Concerned About Predictability?

Wall Street Journal – 7/05: *“Shell’s Cost Soar for Russian Project .. Price Tag of Sakhalin II may double to \$20 billion”*

Houston Chronicle 5/06: *(explaining why Rich Kinder was initiating what could be the largest management buyout in US history) “At a share price of \$84.71 investors are saying “there are risks to these projects so we are putting a heavy discount on (the share price).”*

Upstream (5/03): *megaprojects have a 50% probability of becoming “mega-wrecks”*

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Why Be Concerned About Predictability?

- ***Studies show major cause of ROCE degradation is capital cost overruns***
- ***CAPEX performance is now an important measure of financial performance; SOX driving increased visibility***
- ***“Boards have now become much more demanding in getting assurances from executives that the risks are identified, that they are quantified, and that quantification is translated into management action”.***

Financial Times, 25 April 2006

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Why Be Concerned About Predictability?

- *Economies of scale create mega-projects; difficult to manage & huge overruns are common*
- *Smaller companies (independents) doing major projects with minimal internal resources*
- *High demand has created an extraordinary seller's market*
- *Loss of experienced people diminishes critical competencies*
- *Organizations were designed for project portfolios of the 90's*
- *Owners can no longer transfer risks to contractors*
- *Increased influence of National Oil Companies impact economics and execution*

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Our Session Today

- **The NEUTRAL VIEW:**

Chris Carabetta – IPA: Can Contracting Strategy Influence Cost Predictability?

- **The CONTRACTOR'S VIEW:**

Scott Mahlberg – Bechtel: A Contractor's View of Lump Sum Contracts

- **The OWNER'S VIEW:**

Paul McNutt – ConocoPhillips: An Owner's View of Estimating

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