How to Achieve Capital Efficiency?

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ABSTRACT

To maintain shareholder value, operating companies must replace existing assets which are at the end of their life and/or add new assets which produce an acceptable return on their investment. Over the last several decades, capital projects have significantly increased in total installed cost reducing the asset’s return on investment. Owners are facing difficult decisions on whether to proceed with, postpone or cancel proposed projects which may not provide acceptable return of investment and shareholder value.

Opportunities exist to reduce the upfront spend on facilities by applying strategies, methods and practices which provide more capital efficient results. These strategies, methods and practices (as described below), can support a more capital efficient execution if effectively applied.

A key strategy is to evaluate the business objectives and obtain alignment amongst all stakeholders. Understanding the differences and costs in “musts” versus “wants” are important to obtain a successful solution. Musts are requirements which will assure the facility is safe, legal and operable based on clearly identified inputs and outputs.

Once alignment is obtained, strategies can be applied which assures the project or program supports the business case. Strategies which will be discussed are:

- Facility Minimum Kit
- Modularization and Standardization
- Integrated Material Supply Chain
- Execution Efficiency

Once effectively applied, a value execution plan incorporating the above strategies can be developed and implemented. History has shown teams will revert to traditional methods and consequently benefits from the value execution plan will be lost. Therefore, continuous governance is required to assure effective implementation through the life of the program or project.

This paper will be of interest to operator’s executive management, operations, project management, engineering firms and constructors of oil and gas facilities.