

press release

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Capital Project Delays and Budget Overruns Could Cost Oil and Gas and Utility Industries Trillions of Dollars, Accenture Research Shows

Accenture identifies key steps to improve capital project success



LONDON, Jul 11, 2012 (BUSINESS WIRE) -- Delays and budget overruns on much-needed capital projects for the oil and gas and utility industries could cost companies in those industries trillions of dollars in lost investments, Accenture [ACN +0.25%](#) research shows.

The International Energy Agency (IEA) forecasts that the energy industry will spend nearly US\$38 trillion globally on investments for global energy projects through 2035(1), chiefly to maintain existing assets such as pipelines and electric grids and to build new assets.

Accenture's Innovation Center for Energy and Utilities conducted research to understand how much oil and gas companies and utilities worldwide might overspend if they do not improve the implementation, in terms of delivering on time and on budget, of these large capital projects.

As part of the research, Accenture surveyed 61 energy executives from 21 countries who have responsibility for capital projects of at least US\$1 billion. Using conservative assumptions based on its research, Accenture estimated that the potential overspend across the whole capital budget of the energy industries could be approximately 13 percent, which translates to US\$5 trillion overspend on the US\$38 trillion IEA forecast for global investments.

Among the findings that helped shape Accenture's assumptions: Only 34 percent of respondents said they had delivered to within 25 percent of their approved budget for all

projects, and fewer than a third (32 percent) said they delivered to the approved schedule.

When asked to identify challenges to getting projects launched on time, respondents most often cited regulatory requirements (cited by 49 percent) and workforce/skills availability (25 percent).

"The increasing size and complexity of today's major projects has added to the scale of challenges for energy companies globally," said Jean-Marc Ollagnier, group chief executive of Accenture's Resources operating group. "But companies can improve their success in delivering capital projects by broadening their focus of project management beyond engineering and procurement to include human capital strategy, stakeholder and supplier relations, and defining and measuring success."

Accenture offers recommendations for improved upfront planning, developing and retaining talent, and improving the transition from the construction phase to an operating asset. These recommendations, based on the research results and analysis, as well as on Accenture's vast experience with clients in the energy sectors, focus on the following areas:

- Risk management. Risks typically are not isolated; an issue in one area of a project often affects other areas, which is why having extensive cross-functional input is crucial. Organizations need a rigorous approach to assessing risks--at the project and portfolio levels--as well as robust processes for monitoring and mitigating them.

- Improved collaboration with suppliers. Rising asset-construction costs increase the pressure for operational excellence. Utilities companies, for example, are turning to EPC (engineering, procurement and construction) firms for turnkey execution of projects. Regardless of the number of contractors and suppliers, better methods of collaboration and data transfer need to be agreed upon in upfront planning.

- Data and analytics: Companies must have the capabilities to collect data at all levels and then leverage advanced analytics to gain insight from that data. At a basic level this includes comparing estimates on past projects, reviewing variances, and identifying causes of the variances to avoid repeating them.

- Project lifecycle: One of the key areas for improvement is the transition from the construction phase to an operating asset. It requires better collaboration across the teams responsible for planning and building to commissioning and start-up of the project.

- Talent: Developing a talent strategy early on is essential, and there are multiple elements to consider, including leadership, organizational culture and organizational structure.

"Energy companies will need to continue to work diligently to develop talent, increase the labor pool and build skills in project leadership, construction and managing assets in order to overcome some of the key challenges that arise when launching large capital projects,"

Ollagnier said.

Research Methodology

The research report was conducted by the Accenture Innovation Center for Energy and Utilities, guided by a steering committee led by Lord John Browne of Madingley and leading industry executives. The report is based on telephone interviews with 61 executives in the oil and gas and utility sectors between November 2011 and February 2012. All respondents were C-level executives and decision makers or influencers regarding decisions related to management of capital projects in their organizations; projects eligible for consideration involved operating assets costing at least US\$1 billion and taking more than one year to deliver. The capital projects in the energy sector cover a wide range of upstream operations, pipelines, and liquefied natural gas, refining and chemicals projects. Countries represented by the respondents include Brazil, Canada, China, Denmark, Finland, Germany, Greece, China (including Hong Kong), Hungary, India, Ireland, Italy, The Netherlands, Portugal, Saudi Arabia, Singapore, South Africa, Spain, Switzerland, United Arab Emirates, the United Kingdom and the United States.

(1)World Energy Outlook 2011(C) OECD/International Energy Agency 2011.