

EXHIBIT 2-A

ATTACHMENT 3

AACE International Recommended Practice No. 18R-97

**COST ESTIMATE CLASSIFICATION SYSTEM – AS APPLIED IN
ENGINEERING, PROCUREMENT, AND CONSTRUCTION FOR
THE PROCESS INDUSTRIES**

Acknowledgment:

Peter Christensen CCE, Primary Author
Larry R. Dysert CCC, Primary Author
Jennifer Bates CCE
Dorothy J. Burton
Robert C. Creese PE CCE
John K. Hollmann PE CCE

Kenneth K. Humphreys PE CCE
Donald F. McDonald JR. PE CCE
C. Arthur Miller
Bernard A. Pietlock CCC
Wesley R. Querns CCE
Don L. Short II

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Cost Estimate Classification System – As Applied in Engineering, Procurement, and Construction for the Process Industries



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PURPOSE

As a recommended practice of AACE International, the Cost Estimate Classification System provides guidelines for applying the general principles of estimate classification to project cost estimates (i.e., cost estimates that are used to evaluate, approve, and/or fund projects). The Cost Estimate Classification System maps the phases and stages of project cost estimating together with a generic maturity and quality matrix, which can be applied across a wide variety of industries.

This addendum to the generic recommended practice provides guidelines for applying the principles of estimate classification specifically to project estimates for engineering, procurement, and construction (EPC) work for the process industries. This addendum supplements the generic recommended practice (17R-97) by providing:

- a section that further defines classification concepts as they apply to the process industries;
- charts that compare existing estimate classification practices in the process industry; and
- a chart that maps the extent and maturity of estimate input information (project definition deliverables) against the class of estimate.

As with the generic standard, an intent of this addendum is to improve communications among all of the stakeholders involved with preparing, evaluating, and using project cost estimates specifically for the process industries.

It is understood that each enterprise may have its own project and estimating processes and terminology, and may classify estimates in particular ways. This guideline provides a generic and generally acceptable classification system for process industries that can be used as a basis to compare against. It is hoped that this addendum will allow each user to better assess, define, and communicate their own processes and standards in the light of generally-accepted cost engineering practice.

INTRODUCTION

For the purposes of this addendum, the term process industries is assumed to include firms involved with the manufacturing and production of chemicals, petrochemicals, and hydrocarbon processing. The common thread among these industries (for the purpose of estimate classification) is their reliance on process flow diagrams (PFDs) and piping and instrument diagrams (P&IDs) as primary scope defining documents. These documents are key deliverables in determining the level of project definition, and thus the extent and maturity of estimate input information.

Estimates for process facilities center on mechanical and chemical process equipment, and they have significant amounts of piping, instrumentation, and process controls involved. As such, this addendum may apply to portions of other industries, such as pharmaceutical, utility, metallurgical, converting, and similar industries. Specific addendums addressing these industries may be developed over time.

This addendum specifically does not address cost estimate classification in nonprocess industries such as commercial building construction, environmental remediation, transportation infrastructure, “dry” processes such as assembly and manufacturing, “soft asset” production such as software development, and similar industries. It also does not specifically address estimates for the exploration, production, or transportation of mining or hydrocarbon materials, although it may apply to some of the intermediate processing steps in these systems.

The cost estimates covered by this addendum are for engineering, procurement, and construction (EPC) work only. It does not cover estimates for the products manufactured by the process facilities, or for research and development work in support of the process industries. This guideline does not cover the significant building construction that may be a part of process plants. Building construction will be covered in a separate addendum.

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This guideline reflects generally-accepted cost engineering practices. This addendum was based upon the practices of a wide range of companies in the process industries from around the world, as well as published references and standards. Company and public standards were solicited and reviewed by the AACE International Cost Estimating Committee. The practices were found to have significant commonalities that are conveyed in this addendum.

COST ESTIMATE CLASSIFICATION MATRIX FOR THE PROCESS INDUSTRIES

The five estimate classes are presented in figure 1 in relationship to the identified characteristics. Only the level of project definition determines the estimate class. The other four characteristics are secondary characteristics that are generally correlated with the level of project definition, as discussed in the generic standard. The characteristics are typical for the process industries but may vary from application to application.

This matrix and guideline provide an estimate classification system that is specific to the process industries. Refer to the generic standard for a general matrix that is non-industry specific, or to other addendums for guidelines that will provide more detailed information for application in other specific industries. These will typically provide additional information, such as input deliverable checklists to allow meaningful categorization in those particular industries.

ESTIMATE CLASS	Primary Characteristic	Secondary Characteristic			
	LEVEL OF PROJECT DEFINITION Expressed as % of complete definition	END USAGE Typical purpose of estimate	METHODOLOGY Typical estimating method	EXPECTED ACCURACY RANGE Typical variation in low and high ranges [a]	PREPARATION EFFORT Typical degree of effort relative to least cost index of 1 [b]
Class 5	0% to 2%	Concept Screening	Capacity Factored, Parametric Models, Judgment, or Analogy	L: -20% to -50% H: +30% to +100%	1
Class 4	1% to 15%	Study or Feasibility	Equipment Factored or Parametric Models	L: -15% to -30% H: +20% to +50%	2 to 4
Class 3	10% to 40%	Budget, Authorization, or Control	Semi-Detailed Unit Costs with Assembly Level Line Items	L: -10% to -20% H: +10% to +30%	3 to 10
Class 2	30% to 70%	Control or Bid/Tender	Detailed Unit Cost with Forced Detailed Take-Off	L: -5% to -15% H: +5% to +20%	4 to 20
Class 1	50% to 100%	Check Estimate or Bid/Tender	Detailed Unit Cost with Detailed Take-Off	L: -3% to -10% H: +3% to +15%	5 to 100

- Notes:
- [a] The state of process technology and availability of applicable reference cost data affect the range markedly. The +/- value represents typical percentage variation of actual costs from the cost estimate after application of contingency (typically at a 50% level of confidence) for given scope.
 - [b] If the range index value of "1" represents 0.005% of project costs, then an index value of 100 represents 0.5%. Estimate preparation effort is highly dependent upon the size of the project and the quality of estimating data and tools.

Figure 1. – Cost Estimate Classification Matrix for Process Industries

CHARACTERISTICS OF THE ESTIMATE CLASSES

The following charts (figures 2a through 2e) provide detailed descriptions of the five estimate classifications as applied in the process industries. They are presented in the order of least-defined estimates to the most-defined estimates. These descriptions include brief discussions of each of the estimate characteristics that define an estimate class.

For each chart, the following information is provided:

- **Description:** a short description of the class of estimate, including a brief listing of the expected estimate inputs based on the level of project definition.
- **Level of Project Definition Required:** expressed as a percent of full definition. For the process industries, this correlates with the percent of engineering and design complete.
- **End Usage:** a short discussion of the possible end usage of this class of estimate.
- **Estimating Methods Used:** a listing of the possible estimating methods that may be employed to develop an estimate of this class.
- **Expected Accuracy Range:** typical variation in low and high ranges after the application of contingency (determined at a 50% level of confidence). Typically, this results in a 90% confidence that the actual cost will fall within the bounds of the low and high ranges.
- **Effort to Prepare:** this section provides a typical level of effort (in hours) to produce a complete estimate for a US\$20,000,000 plant. Estimate preparation effort is highly dependent on project size, project complexity, estimator skills and knowledge, and on the availability of appropriate estimating cost data and tools.
- **ANSI Standard Reference (1989) Name:** this is a reference to the equivalent estimate class in the existing ANSI standards.
- **Alternate Estimate Names, Terms, Expressions, Synonyms:** this section provides other commonly used names that an estimate of this class might be known by. These alternate names are not endorsed by this Recommended Practice. The user is cautioned that an alternative name may not always be correlated with the class of estimate as identified in the chart.

CLASS 5 ESTIMATE	
<p>Description: Class 5 estimates are generally prepared based on very limited information, and subsequently have wide accuracy ranges. As such, some companies and organizations have elected to determine that due to the inherent inaccuracies, such estimates cannot be classified in a conventional and systemic manner. Class 5 estimates, due to the requirements of end use, may be prepared within a very limited amount of time and with little effort expended—sometimes requiring less than an hour to prepare. Often, little more than proposed plant type, location, and capacity are known at the time of estimate preparation.</p> <p>Level of Project Definition Required: 0% to 2% of full project definition.</p> <p>End Usage: Class 5 estimates are prepared for any number of strategic business planning purposes, such as but not limited to market studies, assessment of initial viability, evaluation of alternate schemes, project screening, project location studies, evaluation of resource needs and budgeting, long-range capital planning, etc.</p>	<p>Estimating Methods Used: Class 5 estimates virtually always use stochastic estimating methods such as cost/capacity curves and factors, scale of operations factors, Lang factors, Hand factors, Chilton factors, Peters-Timmerhaus factors, Guthrie factors, and other parametric and modeling techniques.</p> <p>Expected Accuracy Range: Typical accuracy ranges for Class 5 estimates are - 20% to -50% on the low side, and +30% to +100% on the high side, depending on the technological complexity of the project, appropriate reference information, and the inclusion of an appropriate contingency determination. Ranges could exceed those shown in unusual circumstances.</p> <p>Effort to Prepare (for US\$20MM project): As little as 1 hour or less to perhaps more than 200 hours, depending on the project and the estimating methodology used.</p> <p>ANSI Standard Reference Z94.2-1989 Name: Order of magnitude estimate (typically -30% to +50%).</p> <p>Alternate Estimate Names, Terms, Expressions, Synonyms: Ratio, ballpark, blue sky, seat-of-pants, ROM, idea study, prospect estimate, concession license estimate, guesstimate, rule-of-thumb.</p>

Figure 2a. – Class 5 Estimate

CLASS 4 ESTIMATE	
<p>Description: Class 4 estimates are generally prepared based on limited information and subsequently have fairly wide accuracy ranges. They are typically used for project screening, determination of feasibility, concept evaluation, and preliminary budget approval. Typically, engineering is from 1% to 15% complete, and would comprise at a minimum the following: plant capacity, block schematics, indicated layout, process flow diagrams (PFDs) for main process systems, and preliminary engineered process and utility equipment lists.</p> <p>Level of Project Definition Required: 1% to 15% of full project definition.</p> <p>End Usage: Class 4 estimates are prepared for a number of purposes, such as but not limited to, detailed strategic planning, business development, project screening at more developed stages, alternative scheme analysis, confirmation of economic and/or technical feasibility, and preliminary budget approval or approval to proceed to next stage.</p>	<p>Estimating Methods Used: Class 4 estimates virtually always use stochastic estimating methods such as equipment factors, Lang factors, Hand factors, Chilton factors, Peters-Timmerhaus factors, Guthrie factors, the Miller method, gross unit costs/ratios, and other parametric and modeling techniques.</p> <p>Expected Accuracy Range: Typical accuracy ranges for Class 4 estimates are -15% to -30% on the low side, and +20% to +50% on the high side, depending on the technological complexity of the project, appropriate reference information, and the inclusion of an appropriate contingency determination. Ranges could exceed those shown in unusual circumstances.</p> <p>Effort to Prepare (for US\$20MM project): Typically, as little as 20 hours or less to perhaps more than 300 hours, depending on the project and the estimating methodology used.</p> <p>ANSI Standard Reference Z94.2-1989 Name: Budget estimate (typically -15% to + 30%).</p> <p>Alternate Estimate Names, Terms, Expressions, Synonyms: Screening, top-down, feasibility, authorization, factored, pre-design, pre-study.</p>

Figure 2b. – Class 4 Estimate

CLASS 3 ESTIMATE	
<p>Description: Class 3 estimates are generally prepared to form the basis for budget authorization, appropriation, and/or funding. As such, they typically form the initial control estimate against which all actual costs and resources will be monitored. Typically, engineering is from 10% to 40% complete, and would comprise at a minimum the following: process flow diagrams, utility flow diagrams, preliminary piping and instrument diagrams, plot plan, developed layout drawings, and essentially complete engineered process and utility equipment lists.</p> <p>Level of Project Definition Required: 10% to 40% of full project definition.</p> <p>End Usage: Class 3 estimates are typically prepared to support full project funding requests, and become the first of the project phase “control estimates” against which all actual costs and resources will be monitored for variations to the budget. They are used as the project budget until replaced by more detailed estimates. In many owner organizations, a Class 3 estimate may be the last estimate required and could well form the only basis for cost/schedule control.</p>	<p>Estimating Methods Used: Class 3 estimates usually involve more deterministic estimating methods than stochastic methods. They usually involve a high degree of unit cost line items, although these may be at an assembly level of detail rather than individual components. Factoring and other stochastic methods may be used to estimate less-significant areas of the project.</p> <p>Expected Accuracy Range: Typical accuracy ranges for Class 3 estimates are -10% to -20% on the low side, and +10% to +30% on the high side, depending on the technological complexity of the project, appropriate reference information, and the inclusion of an appropriate contingency determination. Ranges could exceed those shown in unusual circumstances.</p> <p>Effort to Prepare (for US\$20MM project): Typically, as little as 150 hours or less to perhaps more than 1,500 hours, depending on the project and the estimating methodology used.</p> <p>ANSI Standard Reference Z94.2-1989 Name: Budget estimate (typically -15% to + 30%).</p> <p>Alternate Estimate Names, Terms, Expressions, Synonyms: Budget, scope, sanction, semi-detailed, authorization, preliminary control, concept study, development, basic engineering phase estimate, target estimate.</p>

Figure 2c. – Class 3 Estimate

CLASS 2 ESTIMATE	
<p>Description: Class 2 estimates are generally prepared to form a detailed control baseline against which all project work is monitored in terms of cost and progress control. For contractors, this class of estimate is often used as the “bid” estimate to establish contract value. Typically, engineering is from 30% to 70% complete, and would comprise at a minimum the following: process flow diagrams, utility flow diagrams, piping and instrument diagrams, heat and material balances, final plot plan, final layout drawings, complete engineered process and utility equipment lists, single line diagrams for electrical, electrical equipment and motor schedules, vendor quotations, detailed project execution plans, resourcing and work force plans, etc.</p> <p>Level of Project Definition Required: 30% to 70% of full project definition.</p> <p>End Usage: Class 2 estimates are typically prepared as the detailed control baseline against which all actual costs and resources will now be monitored for variations to the budget, and form a part of the change/variation control program.</p>	<p>Estimating Methods Used: Class 2 estimates always involve a high degree of deterministic estimating methods. Class 2 estimates are prepared in great detail, and often involve tens of thousands of unit cost line items. For those areas of the project still undefined, an assumed level of detail takeoff (forced detail) may be developed to use as line items in the estimate instead of relying on factoring methods.</p> <p>Expected Accuracy Range: Typical accuracy ranges for Class 2 estimates are -5% to -15% on the low side, and +5% to +20% on the high side, depending on the technological complexity of the project, appropriate reference information, and the inclusion of an appropriate contingency determination. Ranges could exceed those shown in unusual circumstances.</p> <p>Effort to Prepare (for US\$20MM project): Typically, as little as 300 hours or less to perhaps more than 3,000 hours, depending on the project and the estimating methodology used. Bid estimates typically require more effort than estimates used for funding or control purposes.</p> <p>ANSI Standard Reference Z94.2-1989 Name: Definitive estimate (typically -5% to + 15%).</p> <p>Alternate Estimate Names, Terms, Expressions, Synonyms: Detailed control, forced detail, execution phase, master control, engineering, bid, tender, change order estimate.</p>

Figure 2d. – Class 2 Estimate

CLASS 1 ESTIMATE	
<p>Description: Class 1 estimates are generally prepared for discrete parts or sections of the total project rather than generating this level of detail for the entire project. The parts of the project estimated at this level of detail will typically be used by subcontractors for bids, or by owners for check estimates. The updated estimate is often referred to as the current control estimate and becomes the new baseline for cost/schedule control of the project. Class 1 estimates may be prepared for parts of the project to comprise a fair price estimate or bid check estimate to compare against a contractor’s bid estimate, or to evaluate/dispute claims. Typically, engineering is from 50% to 100% complete, and would comprise virtually all engineering and design documentation of the project, and complete project execution and commissioning plans.</p> <p>Level of Project Definition Required: 50% to 100% of full project definition.</p> <p>End Usage: Class 1 estimates are typically prepared to form a current control estimate to be used as the final control baseline against which all actual costs and resources will now be monitored for variations to the budget, and form a part of the change/variation control program. They may be used to evaluate bid checking, to support vendor/contractor negotiations, or for claim evaluations and dispute resolution.</p>	<p>Estimating Methods Used: Class 1 estimates involve the highest degree of deterministic estimating methods, and require a great amount of effort. Class 1 estimates are prepared in great detail, and thus are usually performed on only the most important or critical areas of the project. All items in the estimate are usually unit cost line items based on actual design quantities.</p> <p>Expected Accuracy Range: Typical accuracy ranges for Class 1 estimates are -3% to -10% on the low side, and +3% to +15% on the high side, depending on the technological complexity of the project, appropriate reference information, and the inclusion of an appropriate contingency determination. Ranges could exceed those shown in unusual circumstances.</p> <p>Effort to Prepare (for US\$20MM project): Class 1 estimates require the most effort to create, and as such are generally developed for only selected areas of the project, or for bidding purposes. A complete Class 1 estimate may involve as little as 600 hours or less, to perhaps more than 6,000 hours, depending on the project and the estimating methodology used. Bid estimates typically require more effort than estimates used for funding or control purposes.</p> <p>ANSI Standard Reference Z94.2 Name: Definitive estimate (typically -5% to + 15%).</p> <p>Alternate Estimate Names, Terms, Expressions, Synonyms: Full detail, release, fall-out, tender, firm price, bottoms-up, final, detailed control, forced detail, execution phase, master control, fair price, definitive, change order estimate.</p>

Figure 2e. – Class 1 Estimate

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COMPARISON OF CLASSIFICATION PRACTICES

Figures 3a through 3c provide a comparison of the estimate classification practices of various firms, organizations, and published sources against one another and against the guideline classifications. These tables permits users to benchmark their own classification practices.

	AACE Classification Standard	ANSI Standard Z94.0	AACE Pre-1972	Association of Cost Engineers (UK) ACostE	Norwegian Project Management Association (NFP)	American Society of Professional Estimators (ASPE)
	Class 5	Order of Magnitude Estimate -30/+50	Order of Magnitude Estimate	Order of Magnitude Estimate Class IV -30/+30	Concession Estimate	Level 1
					Exploration Estimate	
					Feasibility Estimate	
	Class 4	Budget Estimate -15/+30	Study Estimate	Study Estimate Class III -20/+20	Authorization Estimate	Level 2
	Class 3				Preliminary Estimate	Budget Estimate Class II -10/+10
	Class 2	Definitive Estimate -5/+15	Definitive Estimate	Definitive Estimate Class I -5/+5	Current Control Estimate	Level 4
Class 1	Detailed Estimate					Level 5
					Level 6	

Figure 3a. – Comparison of Classification Practices

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	AAACE Classification Standard	Major Consumer Products Company (Confidential)	Major Oil Company (Confidential)	Major Oil Company (Confidential)	Major Oil Company (Confidential)
INCREASING PROJECT DEFINITION	Class 5	Class S Strategic Estimate	Class V Order of Magnitude Estimate	Class A Prospect Estimate	Class V
				Class B Evaluation Estimate	
	Class 4	Class 1 Conceptual Estimate	Class IV Screening Estimate	Class C Feasibility Estimate	Class IV
				Class D Development Estimate	
	Class 3	Class 2 Semi-Detailed Estimate	Class III Primary Control Estimate	Class E Preliminary Estimate	Class III
				Class F Master Control Estimate	
Class 2	Class 3 Detailed Estimate	Class II Master Control Estimate	Class F Master Control Estimate	Class II	
Class 1		Class I Current Control Estimate	Current Control Estimate	Class I	

Figure 3b. – Comparison of Classification Practices

	AAACE Classification Standard	J.R. Heizelman, 1988 AAACE Transactions [1]	K.T. Yeo, The Cost Engineer, 1989 [2]	Stevens & Davis, 1988 AAACE Transactions [3]	P. Behrenbruck, Journal of Petroleum Technology, 1993 [4]
INCREASING PROJECT DEFINITION	Class 5	Class V	Class V Order of Magnitude	Class III*	Order of Magnitude
	Class 4	Class IV	Class IV Factor Estimate	Class II	Study Estimate
	Class 3	Class III	Class III Office Estimate		Budget Estimate
	Class 2	Class II	Class II Definitive Estimate	Class I	Control Estimate
	Class 1	Class I	Class I Final Estimate		

[1] John R. Heizelman, ARCO Oil & Gas Co., 1988 AAACE Transactions, Paper V3.7
 [2] K.T. Yeo, The Cost Engineer, Vol. 27, No. 6, 1989
 [3] Stevens & Davis, BP International Ltd., 1988 AAACE Transactions, Paper B4.1 (* Class III is inferred)
 [4] Peter Behrenbruck, BHP Petroleum Pty., Ltd., article in Petroleum Technology, August 1993

Figure 3c. – Comparison of Classification Practices

EXHIBIT 2-A

ESTIMATE INPUT CHECKLIST AND MATURITY MATRIX

Figure 4 maps the extent and maturity of estimate input information (deliverables) against the five estimate classification levels. This is a checklist of basic deliverables found in common practice in the process industries. The maturity level is an approximation of the degree of completion of the deliverable. The degree of completion is indicated by the following letters.

- None (blank): development of the deliverable has not begun.
- Started (S): work on the deliverable has begun. Development is typically limited to sketches, rough outlines, or similar levels of early completion.
- Preliminary (P): work on the deliverable is advanced. Interim, cross-functional reviews have usually been conducted. Development may be near completion except for final reviews and approvals.
- Complete (C): the deliverable has been reviewed and approved as appropriate.

General Project Data:	ESTIMATE CLASSIFICATION				
	CLASS 5	CLASS 4	CLASS 3	CLASS 2	CLASS 1
Project Scope Description	General	Preliminary	Defined	Defined	Defined
Plant Production/Facility Capacity	Assumed	Preliminary	Defined	Defined	Defined
Plant Location	General	Approximate	Specific	Specific	Specific
Soils & Hydrology	None	Preliminary	Defined	Defined	Defined
Integrated Project Plan	None	Preliminary	Defined	Defined	Defined
Project Master Schedule	None	Preliminary	Defined	Defined	Defined
Escalation Strategy	None	Preliminary	Defined	Defined	Defined
Work Breakdown Structure	None	Preliminary	Defined	Defined	Defined
Project Code of Accounts	None	Preliminary	Defined	Defined	Defined
Contracting Strategy	Assumed	Assumed	Preliminary	Defined	Defined
Engineering Deliverables:					
Block Flow Diagrams	S/P	P/C	C	C	C
Plot Plans		S	P/C	C	C
Process Flow Diagrams (PFDs)		S/P	P/C	C	C
Utility Flow Diagrams (UFDs)		S/P	P/C	C	C
Piping & Instrument Diagrams (P&IDs)		S	P/C	C	C
Heat & Material Balances		S	P/C	C	C
Process Equipment List		S/P	P/C	C	C
Utility Equipment List		S/P	P/C	C	C
Electrical One-Line Drawings		S/P	P/C	C	C
Specifications & Datasheets		S	P/C	C	C
General Equipment Arrangement Drawings		S	P/C	C	C
Spare Parts Listings			S/P	P	C
Mechanical Discipline Drawings			S	P	P/C
Electrical Discipline Drawings			S	P	P/C
Instrumentation/Control System Discipline Drawings			S	P	P/C
Civil/Structural/Site Discipline Drawings			S	P	P/C

Figure 4. – Estimate Input Checklist and Maturity Matrix

REFERENCES

- ANSI Standard Z94.2-1989. **Industrial Engineering Terminology: Cost Engineering.**
AACE International Recommended Practice No.17R-97, **Cost Estimate Classification System.**