Case Study: Gas Processing Facility

Expert analysis and opinions related to the standard of care for capital project authorization and EPC project management

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PROJECT

Engineering, Procurement, and Construction (EPC) of a 350 MM SCFD Gas Processing Facility

CONTRACT

$100+ Million, Joint Venture Partnership

PRIMARY ISSUES

- Capital Project Authorization
- Cost Overruns
- EPC Project Management Failures
- Cost Tracking and Reporting

Dispute

Two independent oil and gas exploration and development companies entered a joint venture partnership to pursue multiple developments in the United States Gulf Coast area. The partnership agreement specified one company as the operating partner and the other as a non-operating partner. For facilities under development, the operating partner was responsible for overseeing the engineering, procurement, and construction while the non-operating partner was solely responsible for funding based on its percentage involvement in the joint venture (working interest).

The parties developed a gas processing facility in Louisiana that was initially approved with an estimated cost of approximately $20 million and was completed with an actual cost in excess of $100 million. Due to the significant cost overrun, the non-operating partner sued the operating partner claiming the operating partner grossly mismanaged the engineering, procurement, and construction and that such mismanagement constituted gross negligence. The non-operating partner also claimed that due to the operating partner's gross negligence, it should not have to pay for certain resultant EPC costs. The dispute also involved an offshore well drilling failure and its resultant lost production claim. However, Interface was not asked to evaluate this specific issue. The parties litigated the matter in Texas with a month-long jury trial.

Approach

Interface was asked to analyze various project management and construction management issues to determine if the operating partner's performance on the project complied with the standard of care. Interface analyzed numerous issues, including, but not limited to, the following:

- Cost control, cost tracking, and cost forecasting
- Cost estimating
- Schedule control and forecasting
- Front end engineering design (FEED) issues
- Engineering issues, including late and excessive engineering changes
- Procurement issues, including ordering equipment prior to developing sufficient levels of engineering
- Insufficient and inexperienced staffing
- Contractor and vendor management, including award of contracts with inadequate scope of work definitions

To evaluate these issues, Interface analyzed the design drawings, specifications, cost documents, schedules, estimates, and progress reporting to assess the contemporaneous information available to the parties.

Approach

Interface's analysis demonstrated that the operating partner failed to properly perform its project management, construction management, and cost reporting functions throughout the project, which prevented the parties from mitigating unnecessary cost overruns and caused the non-operating partner to incur excessive costs under the joint venture. In addition, based on Interface's industry experience, Interface concluded that the operating partner failed to adequately complete the engineering design prior to authorizing the capital project for construction.

In conclusion, Interface determined the operating partner failed to perform the planning, design, scheduling, engineering, procurement, construction, project management, change order management, management of contractors, and cost tracking and reporting as a prudent operating partner would under similar circumstances. Interface concluded that the operating partner failed to follow the proper standard of care.

Outcome

Interface supported its opinions by providing in-person expert witness testimony at a deposition and in the jury trial.

After the jury trial, final judgement awarded the non-operating partner over $70 million in damages and denied all counterclaims from the operating partner. The jury excused the non-operating partner from reimbursing the operating partner for certain costs incurred due to the operator's inadequate project planning and development.

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