



NEW JERSEY SECTION- NEWSLETTER

February 2021

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2020 – A Snapshot

2020 was a challenging year. It was unprecedented for the current generations. But, we are pleased to inform you AACEI NJ Section (Region 2) successfully conducted four Section Meetings as follows:

1. Program: AACE NJ Section Meeting - **Key Performance Indicators - What They Mean for Projects**
Date: March 11, 2020
Speaker: Abhimanyu Basu
Firm: Basu Technology
2. Program: AACE NJ Section Meeting - **Introduction to Value Engineering & Updates to the VM Guide**
Date: September 16, 2020
Speaker: Philip Mok
Firm: PMOK Consulting
3. Program: AACE NJ Section Meeting - **Project Controls Reporting: Having the Message Heard**
Date: October 28, 2020
Speaker: Ronald Grant
Firm: HDR
4. Program: AACE NJ Section Meeting - **Cost Management in the Utility Industry**
Date: December 16, 2020
Speaker: Sahel Daqamseh
Firm: PMA Consultants

The meetings provided meaningful insight on various topics. We thank our speakers for sharing their knowledge and valuable time with us.

Note that if anyone is interested in learning more about the presentation topics or speakers then please reach out to us. We will share more details.



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Section Meeting

Program: Covid -19 Cost & Schedule Impact on Construction Projects & Cost Data Collect

Date: Wednesday Mar 17, 2021

Location: Virtual via ZOOM

Time: 12:00 PM (EST)

John will discuss the pre- COVID & post-COVID ramifications of increased construction costs, loss of field construction productivity, extended schedule durations & increased field in-directs & what the new "normal" for the Global Construction industry will be going forward. Estimators, Cost Engineers, Planners & Construction Professionals have struggled with the impact of COVID-19 since early 2020. The impact of COVID-19 on construction material & labor costs, productivity & general conditions will be discussed. The virus has created significant problems to the Global Construction sector, compelling many organizations to substantially modify, shut down or severely slow down ongoing construction activities.

Speaker Bio

The speaker will be John G. McConville CCP, John is the Operations Director of Compass International a professional consulting firm that provides:

- (8) Annual USA / International Cost Estimating Publications.
- Independent Estimates, Estimate Reviews & Audits.
- Benchmarking Services, Value Engineering and Productivity Improvement studies.
- Conceptual and Detailed Estimating Training & Project Turnaround(s).

Compass International is based in suburban Philadelphia, USA and has an additional office in Florida. John is considered an expert on Global Construction Costs, Labor Productivity optimization & mapping out most practical and economic Contracting approaches.

John has more than 35 years in the Petro-Chemical, Oil & Gas, Offshore, Power, Pharmaceutical and Commercial construction sectors working with Owners, EPC companies, Lawyers & Consultants.

Prior to establishing Compass International he held Senior Executive, Project / Construction Management positions for close to 25 years with:

- Mobil Oil USA & Mobil Oil Norway - Cost Engineering Manager - (working on \$3 billion offshore Production Facilities & Pipelines)
- Day & Zimmermann Inc. - Manager of Estimating & Value Engineering - (A top US 10 Construction / Construction Management Company)
- Linde Gas - Director of Construction - (Largest Worldwide Industrial Gas Producer)
- Bristol-Myers Squibb - Director of Global Estimating - (Major Global Pharmaceutical Company)
- Working on major CAPEX projects that ranged from \$5 million to \$7 billion located in 30 + countries including Australia, Brazil, Canada, Chile, Japan, Ireland, Saudi Arabia, Nigeria, India, the UK & the USA.

John has delivered Estimating / Project Control training programs to more than 3,500 construction professionals in the USA, UK, the Netherlands, Saudi Arabia, Venezuela, India and Malaysia. John is the author of (10)



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Estimating / Procurement books, he is also a Certified Cost Professional (CCP) with AACEI & has a degree in Construction Management.

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www.compassinternational.net company e mail sales@compassinternational.net

Zoom Meeting Details

Join Zoom Meeting

<https://us02web.zoom.us/j/84570096598?pwd=VUhyZDA2S20velJaekNHRWpUVlJVUT09>

Meeting ID: 845 7009 6598

Passcode: 855814

One tap mobile

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+1 346 248 7799 US (Houston)

Meeting ID: 845 7009 6598

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Announcements

The New Jersey Section (Region 2) is pleased to inform the board meeting to discuss 2021 plans occurred on February 4, 2021. The next board meeting will occur in April 2021.

Starting this month, we will be including 'Article of the Month' in our newsletters. We welcome you all to submit interesting Articles. If selected, it will be published in subsequent newsletters.



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Article of the Month

How do Utilities, Nuclear and Gas plants Return of Capital and Return on Investment works?

By: Sahel Daqamseh; PMA Consultants

Within the utility industry, the finance of their capital programs is the dictator of the companies five to ten years direction, as they utilize many funding and investment instruments, whether a publicly funded utility or a privately funded utility, the borrowed capital to execute projects to serve the public needs remains the most important factor for project executed.

Over the last century, electricity and clean energy have been at the forefront of U.S. priorities in meeting the public's energy needs. In each state, many companies provide energy under regulations issued by local state and government commissions. In New Jersey, power companies operate through the PJM interconnections (Pennsylvania, Jersey, and Massachusetts) [1] and are regulated by the Federal Energy Regulatory Commission (FERC) [2].

Local Jersey companies are extending capital throughout PJM with plans to carry out reliability projects, in order to better supply customers with electricity. The capital expenditures of local companies are in turn incorporated into the application for an increase in the base rate per \$/kW.h (kilowatt.hour) that is charged to customers with the best electricity [1]. In this article, we will understand in more detail the important role of the cost engineer in such an industry.

Utility Financing:-

Now let's take a step back and take a look at how utilities fund their projects and how project reporting is done to meet financial requirements. First, we need to understand the return on investment (ROI) factors for utilities when they invest in capital projects, such as a substation or power plant.

Any utility company has a basic rate of return formula, that determines how they should charge per kW.h, which is based on multiple factors such as revenue requirement, rate base, which is the amount of capital or assets the utility dedicates to providing its regulated services, allowed rate of return, which is the cost the utility incurs to finance its rate base, including both debt and equity, operating expenses, which are the costs of items such as supplies, labor (not used for plant construction), and items for resale that are consumed by the business in a short period of time (less than one year) and annual depreciation expense, which is the annual accounting charge for wear, tear, and obsolescence of plant, lastly, all taxes not counted as operating expenses and not directly charged to customers. [1]

$$R = B \cdot r + E + d + T. [3]$$

R: revenue requirement

B: rate base

r: allowed rate of return



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E: operating expenses

d: annual depreciation expense

T: all taxes

What we can derive from here, when a utility company, for example, invests in a new asset, it contributes to the company's revenues in two ways: first, through the revenues generated by the electricity produced and sold, once the asset is commissioned, and second, through capital expenditures, which are then accounted for in the company's base rate increase. To understand more about what's included in the Base rate, refer to Robert Hahne & Gregory's Aliff book, *Accounting for Public Utilities*, Pub. 16, release 36, 2019, chapter 4.04. These two tycoons of the accounting world in the utility industry, better explains for you, how utility companies make revenue and how capital expenditures feed into the company application for base rate increase.

Now, it is safe to say that the equation below is true, even if it is very simplified:

ROI of an asset = income from the sale of electricity + Base rate increase due to capital expenditures + Base rate increase due to other factors.



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Board of Directors

The New Jersey Section (Region 2) is pleased to announce its Board of Directors for 2020-2021. Congratulations to all the members.

Position	Address	Contact Information
President Dr. Pei Tang	JCMS, Inc. 1741 Whitehorse Mercerville Road, Hamilton Township, NJ 08619	(609) 977-9064 ptang@mtu.edu
Vice President Ramani Sundaram, CCP, CEP, PMP	STV Inc. 225 Park Ave South, New York, NY 1000	(609) 330-8014 ramani551@msn.com
Treasurer Allen Hamilton	Project Management Associates LLC 3 Totten Way, Suite 110 Morris Plains, New Jersey 07950	(973) 984-1853 ACHamilton42@outlook.com
Secretary Lisa Wancowicz, PE, PSP	AECOM 30 Knightsbridge Rd. Suite 520, Piscataway Township, NJ 08854	(732) 614-5211 lisa.wancowicz@gmail.com
Director, Corporate Sponsorship Sahel Daqamseh	PMA Consultants 1350 Broadway, Suite 1810, New York, NY 10018	(201) 268-4882 sahel.daqamseh@gmail.com
Director, Certification Ketul Gandhi	HNTB Corporation 350 5th Avenue, 57th Floor, New York, NY 10118	(908) 344-7855 gandhi.ketul@gmail.com
Director, Membership Vishnu Divvela	Faithful & Gould 12 Hamilton Dr, Cranbury, NJ 08512	(540) 449-1226 d.vishu@gmail.com
Director, Newsletter Rohan P Mutha, CCM, CCP, PSP, LEED AP, EIT	AECOM 605 3 rd Avenue, New York, NY 10158	(224) 532-1878 rohanmutha@gmail.com