

CH402 Chemical Engineering Process Design

Class Notes L15

Cost Components of Capital Investments

A template for today's lesson is found in Canvas Lesson 15

L15/16 Learning Objectives

- L15:
1. Use cost components to estimate capital costs for chemical processing facilities.
 2. Estimate capital costs using Lang factors.
- L16:
1. Estimate capital costs using scaling factors.
 2. Estimate capital costs based on turnover ratio.
 3. Determine breakeven point given production data.

Problem 6-3

The purchase and installation costs of some pieces of equipment are given as a function of weight rather than capacity. An example of this is the installed costs of large tanks. The 1990 cost for an installed aluminum tank weighing 45,000 kg was \$640,000. For a size range from 10,000 to 450,000 kg, the installed cost weight exponent for aluminum tanks is 0.93. If an aluminum tank weighing 300,000 kg is required, what capital investment is needed in the year 2000?

Problem 6-4

The 1990 cost for an installed 304 stainless steel tank weighing 135,000 kg was \$1,100,000. The installed cost weight exponent for stainless steel tanks is 0.88 for a size range from 100,000 to 300,000 kg. What weight of installed stainless steel tank could have been obtained for the same capital investment as in Problem 6-3?

Plant Costs - Methods A-G

- A - Detailed item estimate
- B - Unit cost estimate – based on records
- C - Percentage of delivered-equipment cost
- D - Lang factors
- E - Power factors with plant/capacity ratio
- F - Cost per unit capacity
- G - Turnover ratio

Percentage of Delivered Equipment Cost

[FE Ref. Manual pages 257](#)

Method C

Component	Range
<i>Direct costs</i>	
Purchased equipment-delivered (including fabricated equipment and process machinery such as pumps and compressors)	100
Purchased-equipment installation	39–47
Instrumentation and controls (installed)	9–18
Piping (installed)	16–66
Electrical (installed)	10–11
Buildings (including services)	18–29
Yard improvements	10–13
Service facilities (installed)	40–70
Land (if purchase is required)	6
Total direct plant cost	264–346
<i>Indirect costs</i>	
Engineering and supervision	32–33
Construction expenses	34–41
Total direct and indirect plant costs	336–420
Contractor's fee (about 5% of direct and indirect plant costs)	17–21
Contingency (about 10% of direct and indirect plant costs)	36–42
Fixed-capital investment	387–483
Working capital (about 15% of total capital investment)	68–86
Total capital investment	455–569

Example 6-1

p. 240

Estimate the fixed capital investment for a process plant if the purchased-equipment cost is \$100,000. Use the ranges of process-plant component cost outlined in Table 6-3, for a process plant handling both solids and fluids, with a high degree of automatic controls, and essentially outdoor operation. Do not include land.

Very Important Example – Needed for PS8 Problem 6-8

Solve by methods C (2 ways) and D (Lang Factors)

example 6-1 cadet - Excel

The screenshot shows an Excel spreadsheet titled "example 6-1 cadet - Excel". The ribbon menu is visible at the top, showing tabs like FILE, HOME, INSERT, PAGE LAYOUT, FORMULAS, DATA, REVIEW, VIEW, Approvlt, ACROBAT, and ChemOffice12. The HOME tab is selected. The toolbar below the ribbon includes buttons for Paste, Font, Alignment, Number, Styles, Cells, and Editing. The status bar at the bottom shows "READY" and "120%".

Checklist for Fixed Capital Investment in a New Facility or Large Addition

(Percentage of FCI Method)

Component	% of FCI T6.3 values	Estimated % (normalized)	Estimated Cost (component costs)
<i>Direct (includes delivery)</i>			
Purchased Equipment	15 to 40		
Purchased Equipment Installation	6 to 14		
Instrumentation and Controls	2 to 12		
Piping	4 to 17		
Electrical Systems	2 to 10		
Buildings	2 to 18		
Yard Improvements	2 to 5		
Service Facilities	8 to 30		
Land	1 to 2		
<i>Indirect</i>			
Engineering and Supervision	4 to 20		
Construction Expenses	4 to 17		
Legal Expenses	1 to 3		
Contractor's Fee	2 to 6		
Contingency	5 to 15		
Totals			

FE Ref. Manual page 257

Use cost & evaluation spreadsheet from course webpage.

Microsoft Excel - Example 6_1b.xls

File Edit View Insert Format Tools Data Window Help xICHEMCA

Type a question for help

A1 ESTIMATION OF CAPITAL INVESTMENT BY PERCENTAGE OF DELIVERED EQUIPMENT METHOD

1 ESTIMATION OF CAPITAL INVESTMENT BY PERCENTAGE OF DELIVERED EQUIPMENT METHOD

2 (See Table 6-9)

3 The fractions in the cells below are approximations applicable to typical chemical processing

4 plants. These values may differ depending on many factors such as location, process type, etc.

5 Required user input Default Subtotal Result

6 Required, from a linked sheet or entered manually Notes & comments

7 Project Identifier: Illustration 101 Fraction of delivered equipment User: copy Calculated

8 Solid-fluid from values values,

9 processing plant plant processing at left or million \$

10 plant plant plant insert

11 Direct Costs

12 Purchased equipment, E' 0.100 19.01864

13 Delivery fraction of E' 0.10 0.10 0.10 0.010 1.901864

14 Subtotal: delivered equipment 0.110 20.9205

15 Purchased equipment installation 0.45 0.39 0.47 0.39 0.043 8.158996

16 Instrumentation&Controls(installed) 0.18 0.26 0.36 0.45 0.050 9.414226

17 Piping (installed) 0.16 0.31 0.68 0.35 0.039 7.322176

18 Electrical systems (installed) 0.10 0.10 0.11 0.22 0.024 4.60251

19 Buildings (including services) 0.25 0.29 0.18 0.29 0.032 6.066946

20 Yard improvements 0.15 0.12 0.10 0.08 0.009 1.67364

21 Service facilities (installed) 0.40 0.55 0.70 0.70 0.077 14.64435

22 Total direct costs 1.69 2.02 2.60 2.48 0.383 72.80335

23

24 Indirect Costs

25 Engineering and supervision 0.33 0.32 0.33 0.32 0.035 6.694561

26 Construction expenses 0.39 0.34 0.41 0.38 0.042 7.949791

27 Legal expenses 0.04 0.04 0.04 0.04 0.004 0.83682

28 Contractor's fee 0.17 0.19 0.22 0.19 0.021 3.974895

29 Contingency 0.35 0.37 0.44 0.37 0.041 7.740586

30 Total indirect costs 1.28 1.26 1.44 1.30 0.143 27.19665

31

32 Fixed capital investment (FCI) 0.526 Sent to 'Evaluation' and
Year-0 \$, there
adjusted as described
below

33

34 Working capital (WC) 0.70 0.75 0.89 0.89 0.098

35

36 Total capital investment (TCI) 0.624

37 The investments are made over a period of time. This is represented on the basis that startup
38 (time 0) will be three years after the date of the estimate, that 15% of the fixed capital investment
39 is spent in the year beginning at the time of the estimate (year ending at time -2), 35% in the
40 second year (ending at -1), and 50% in the third year (ending at time 0). These values may be
41 changed. The amounts are inflated at the beginning of each year after the estimate, by the deflators
Instructions Capital Inv. Materials&Labor Utilities Depreciation Annual TPC

Draw AutoShapes

Microsoft Excel Microsoft Word Microsoft Powerpoint Microsoft FrontPage

[FE Ref. Manual pages 257](#)

Lang Factors

Method D

PTW, Page 254

Table 6-10. Revised Lang factors for estimation of fixed-capital investment (FCI) or total capital investment (TCI)

Factor × delivered-equipment cost = FCI or TCI		
Type of Plant	Lang factors	
	FCI	TCI
Solid	4.0	4.7
Solid-fluid	4.3	5.0
Fluid	5.0	6.0

H.J. Lang, Chem. Eng., 54 (10) 1947, page 117; H.J. Lang, Chem. Eng., 55 (6) 1948, page 112

Example 1: **Delivered** equipment cost (DEC) for a fluid processing plant is \$100,000

$$\text{FCI} = 5.0 \times \$100,000 = \$500,000 \quad \text{and} \quad \text{TCI} = 6.0 \times \$100,000 = \$600,000$$

Example 2: **Purchased** equipment cost for a fluid processing plant is \$100,000 **as in ex. 6-1**

$$\text{DEC} = \$100,000 + .1 \times \$100,000 = \$110,000 \quad (\text{delivery} = 10\% \text{ of PEC, slide 10})$$

$$\text{FCI} = 5.0 \times \$110,000 = \$550,000 \quad \text{and} \quad \text{TCI} = 6.0 \times \$110,000 = \$660,000$$

Problem 6-8.

The purchased-equipment cost for a plant which produces pentaerythritol (solid-fluid processing plant) is \$300,000. The plant is to be an addition to an existing formaldehyde plant. The major part of the building cost will be for indoor construction. The contractor's fee will be 7% of the direct plant cost. All other costs are close to the average values found for typical chemical plants. On the basis of this information, estimate the total direct plant cost, the fixed capital investment, and the total capital investment.

Use Cost and Evaluation Worksheet (colorful worksheet).

New Definitions - Important Grass-Roots Plant

- A complete plant including infrastructure erected on a new area or site.
- Investment includes all costs of land, site development, battery-limit facilities, and auxiliary facilities.

Battery Limit

- The design of most process units includes a pipe rack on one side of the unit that contains all the piping entering and exiting the unit. The battery limit is where the piping crosses the defined boundary between the unit and the area outside of the unit.
- Battery limits typically exclude storage facilities, administrative buildings, utilities, or auxiliary facilities unless otherwise specified.
- The operational principle is primarily safety but is commonly applied in process design as well. In preparing for major maintenance of a unit, it is cleared of hazardous materials and isolated from the rest of the refinery. A chief operator can go to the battery limits and determine whether all the necessary blinds have been properly installed. He or she signs off on a blind list confirming full unit isolation before work begins.

Plant Costs - Methods A-G

- A - Detailed item estimate
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- C - Percentage of delivered-equipment cost ✓
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- F - Cost per unit capacity
- G - Turnover ratio

Method G: Turnover Ratio

- Use existing data to calculate turnover ratio.
- Assume turnover ratio is constant.

$$\text{Turnover Ratio} = \frac{\text{gross annual sales}}{\text{fixed capital investment}}$$

Eq. 6-11, p. 258

0.2 to 4 y^{-1}

$\pm 30\%$ accuracy.

Use in PS8, problem 6-9

Problem 6-9.

Estimate by the turnover ratio method the fixed-capital investment required in 2000 for a proposed sulfuric acid plant (battery-limit) which has an annual capacity of 1.3×10^8 kg/yr of 100% sulfuric acid (contact catalytic process), using the data from Table 6-11, when the selling price of sulfuric acid is \$86 per metric ton. The plant will operate 325 days/year. Repeat the calculation, using the cost capacity exponent (scaling) method with data from Table 6-11

Problem 6-9.

Estimate by the turnover ratio method the fixed-capital investment required in 2000 for a proposed sulfuric acid plant (battery-limit) which has an annual capacity of 1.3×10^8 kg/yr of 100% sulfuric acid (contact catalytic process), using the data from Table 6-11, when the selling price of sulfuric acid is \$86 per metric ton. The plant will operate 325 days/year. Repeat the calculation, using the cost capacity exponent (scaling) method with data from Table 6-11

Method E: Power Factors and Plant Capacity Ratio

Similar to what we have been doing for single pieces of equipment.

$$C_n = C \cdot f_e \cdot R^x$$

cost index ratio
0.6-0.7

Eq. 6-9, p. 254

$$C_n = f \cdot (D \cdot R^x + I)$$

indirect costs
direct costs

Table 6-11, p. 255

Eq. 6-10

± 20 % accuracy.

$$\text{Cost of Plant A} = \text{Cost of Plant B} \cdot \left(\frac{\text{Capacity of Plant A}}{\text{Capacity of Plant B}} \right)^n$$

FEE p. 150

Problem 6-10.

The total capital investment for a chemical plant is \$1 million, and the working capital is \$100,000. If the plant can produce an average of 8000 kg of final product per day during a 365-day year, what selling price in dollars per kilogram of product would be necessary to give a turnover ratio of 1.0?

Questions?