

PEP Review 2011-06
REBALANCING THE PEP COST INDEX

By
Mike Arné
(September 2011)

ABSTRACT

Any capital cost index is by its very nature a dynamic entity. IHS-SRIC's PEP Cost Index is no exception. Since its inception some forty years ago we have modified and tweaked the index numerous times. And on some occasions we have revisited it in detail, providing an in-depth maintenance overhaul to assure that it will provide our clients with reliable results into the future. This PEP review is such a maintenance check. We take a look at the current PEP Cost Index, its underlying assumptions and data set, and we attempt to ascertain what, if any, modifications need to be applied. These modifications are laid out for discussion and analysis.

In this review we will examine the PEP Cost Index from three points of view: the theoretical, the historical, and the present. First we will present the theoretical underpinnings of the index. We will compare some of the concepts underlying the PEP Cost Index with those of other cost index theories as well as with the well-known cost index of *Chemical Engineering* magazine. Then we will lay out some of the historical record of the PEP Cost Index. Finally, we will present the results of our reexamination of the balance of cost components in the index.



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