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PRACTICE**

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# **OWNER'S COSTS: DEFINITION AND CONSIDERATIONS FOR ESTIMATING**

**SAMPLE**

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## OWNER'S COSTS: DEFINITION AND CONSIDERATIONS FOR ESTIMATING

TCM Framework: 7.3 – Cost Estimating and Budgeting

Effective May 13, 2025

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Any terms found in AAACE Recommended Practice 10S-90, *Cost Engineering Terminology*, supersede terms defined in other AAACE work products, including but not limited to, other recommended practices, the *Total Cost Management Framework*, and *Skills & Knowledge of Cost Engineering*.

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## 1. INTRODUCTION

### 1.1. Scope and Purpose

This recommended practice (RP) of AACE® International defines the term *owner's costs* as used in capital project cost estimating and project control. It also provides a code of accounts structure guideline for owner's costs. The RP also discusses considerations for effective estimation of and accounting for these costs. In summary, the main objectives of this RP are to improve business, project team and stakeholder communication by:

1. Providing a common industry reference definition
2. Providing a guideline for a code of accounts structure
3. Documenting considerations for effective estimation of and accounting for these costs

This RP is focused on engineering and construction (E&C) type projects, and excludes non-E&C projects such as information technology, research and development, aerospace, and defense. However, the principles of organizational breakdowns in a code of accounts are generally applicable across industries.

This RP provides no quantitative cost or cost metric data. However, it references several AACE *Transactions* papers that provide data and metrics.

This RP is intended to provide guidelines (i.e., not a standard) to be used for the estimation of and accounting for owner's costs.

### 1.2. Background

Owner project cost estimates always include items for project scope and activities that the asset owner is typically responsible for performing or acquiring. The concept or term *owner's costs* does not refer to the fact that the owner is ultimately responsible for the entire project investment. It is understood that the owner project team, including estimating, should take responsibility for reviewing the overall project scope and estimate. It also does not refer to most direct cost items in projects where the owner self-performs any portion of the project scope of work (usually small projects). The term is used mostly on large projects where contractors perform much or most of the project scope of work and the scope/items that the owner is responsible for performing, acquiring, and estimating are limited and reasonably consistent in nature.

However, the owner's estimator is **responsible** for the content and quality of the entire estimate, based on deliverables provided by the project team, which the estimator requires for developing the estimate ("estimate receivables"). The project manager is responsible for ensuring the estimate receivables' quality, maturity, and content. After all internal estimate reviews and validations are complete to the satisfaction of the lead estimator, the entire estimate, including all responsibilities, is then transferred to the project team (project manager).

Owner's costs is an element of organizational breakdown in developing a code of accounts (as opposed to contractor's costs). AACE RP 20R-98, *Project Code of Accounts* [1] recognizes owner's versus contractor's costs as an organizational breakdown concept. However, it does not provide a specific definition or account structure guideline for owner's costs. For most industries, the term *owner's costs* is used in E&C, and as RP 20R discusses, there are commonalities in owner's costs account structures among most industries. Some differences occur when industries have different owner activities such as those imposed by current good manufacturing practice (CGMP) regulations in pharmaceutical projects, Nuclear Regulatory Commission (NRC) regulations for nuclear projects, and guidelines for environmental remediation [2], or the inclusion of product development phasing in manufacturing projects. These differences partly explain why the term was not included in AACE RP 10S-90 *Cost Engineering Terminology* [3] prior to this RP's development. Estimators and project control personnel in different industry segments often view their own company and project organizational structures as unique; therefore, consensus was not sought.

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Broad industry code of accounts guidelines, such as the *International Cost Management Standard* (ICMS; re: Acquisition Costs) [4], Royal Institution of Chartered Surveyors (RICS) *New Rules of Measurement (NRM)* [5], ASTM International [6] and others have focused on trade, discipline, and functional breakdowns, not organizational; i.e., the owner's costs items are mostly in the standards, but are not distinguished or categorized as being owner's responsibilities per se. Also, narrower cost coding structures such as the Construction Specifications Institute (CSI) *Masterformat*® [7] focus on material specification in construction.

One of the best owner's costs code of accounts reference available before this RP was AACE RP 103R-19, "*Project Code of Accounts – As Applied in the Mining and Mineral Processing Industries* [8]". While focused on mining, RP 103R-19 is a good reference for owner's costs accounts. Another useful reference since the 1990s has been NORSOK Z-014 *Standard Cost Coding System (SCCS)* developed by Norwegian petroleum industry operators [9]. It has a section on "Owner's Management." The NORSOK standards have been superseded by International Organization for Standardization (ISO) 19008:2016 *Standard cost coding system for oil and gas production and processing facilities*. [10] However, ISO 19008 states that "organizational breakdown structure" is excluded because they "are and will remain unique." This RP takes exception to that statement; there is sufficient commonality in practice to call for a guideline. As an example, prompting a large language model artificial intelligence application to provide "owner's costs coding" will provide a code of accounts starter list (AI apps were used in quality assurance of this RP, but the definition and code of accounts guidelines are based on the published references and contributor inputs).

Among owner's scope of work and cost items, perhaps the most common elements are typically referred to collectively as the owner's project management team (PMT). The PMT oversees the owner's interests and manages the owner's activities. The PMT is not a steering committee or other management entity above or outside of the project. Every major project has at least an owner's project manager or equivalent, usually supported by a team of functional leads and specialists (e.g., project controls, construction management, and so on). Beyond that, owner's costs include indirect activities, deliverables, and items typically managed or acquired by the owner such as permit negotiations, stakeholder management, special studies, insurance, etc. Furthermore, owners may also acquire portions of the direct equipment, materials, and perform some work (e.g., commissioning). This is where industry commonality diminishes as distinctions between owner and contractor roles blur. These many items are covered in the RP's *Owner's Costs Code of Accounts Structure* Section 2.3 and its associated *Appendix*.

## 2. RECOMMENDED PRACTICES

### 2.1. Owner's Costs Definition

The following is a guideline definition for owner's costs:

**OWNER'S COSTS** – The costs of indirect project scope of work activities and items that an owner is typically responsible for performing or acquiring. This constitutes an element of organizational breakdown, distinct from contractor's costs, in project code of account development.

In the above definition, the term *typically* would exclude owner-performed detailed engineering and construction and owner-procured equipment and materials. *Typically* means general commonality, understanding that every company and project code of accounts may differ. It is fair to recognize that some owners may not take responsibility for certain activities but should (e.g., taking active part in construction management). *Performing* recognizes that while in the end owners are theoretically responsible for everything, owner's costs includes only what the owner performs or acquires. This would be whether they prepare the cost estimate themselves or contract the work to a consultant or contractor (i.e., costs of an owner's agent for PMT tasks would be an owner's cost). The PMT is a core subset of owner's costs activities and items as defined in the next section.



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## 2.2. Owner Project Management Team (PMT) Definition

The following definition for owner project management team (PMT) is derived from the NORSOK Z-014 definition of owner's management [9].

OWNER PROJECT MANAGEMENT TEAM (PMT) – Personnel resources and services required for both project management and construction management by the owner to manage, administer, control, coordinate, and supervise a project.

This may be referred to as just *owner's management* (as per NORSOK Z-014 [9]).

## 2.3. Owner's Costs Code of Accounts Structure

To support the development of this RP, samples of published and confidentially provided owner's costs and PMT account structures were gathered, reviewed, and used to create a guideline cost structure found in the Appendix. The resulting guideline structure does not reflect input from any single individual or organization. Where there were significant industry differences, typically at a detailed level, those are noted in the Appendix. AACE RP 103R-19, *Project Code of Accounts – As Applied in the Mining and Mineral Processing Industries* [8] was used as a starting point. This was supplemented with additional structure guidance specifically applicable to the PMT breakdown derived from ISO 19008:2016 *Standard cost coding system for oil and gas production and processing facilities* [10]. Next, the key AACE *Transactions* papers previously mentioned were considered [11] [12] [13] along with non-AACE publications [4] [5] [6] [7]. Finally, the privately provided confidential sources were reviewed. The final structure guideline represents a general consensus of the RP contributors based on their review comments.

## 2.4. Estimating Considerations for Owner's Costs

There are a number of considerations related to estimating and controlling owner costs that are worthy of discussion. While the owner's costs can be viewed as just another element of an entire estimate, there are some unique concerns that the owner's PMT, which usually prepares the owner's costs estimate, should take into consideration.

### 2.4.1. Estimating Roles/Scope Alignment

In planning, the PMT must consider organizational estimating responsibilities, interfaces, and required skills and knowledge. Detailed engineering and construction estimates are typically prepared by contractors using experienced professional estimators. Owner's costs estimates are typically prepared by PMT or associated functional staff (often the PM on smaller projects) that may have involvement from less experienced estimating resources. Owner's costs estimates are often more in the nature of a compilation of inputs from various owner functional leads and consultants; activities and items may be missed or double-dipped. Reviews are needed to assure the quality of the owner's costs estimates. Defining the interface between owner and contractor responsibilities is critical. A structured code of accounts, optimally supported by a document delineating the owner and contractor responsibilities, will guide estimate development, reviews, and add clarity on who is responsible for what.

This RP is a guideline for understanding, and not a standard; it should not be interpreted as defining how owners and contractors should align on scope and interfaces.