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Panelists

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The Rhodes Group

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KBR

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Objectives

• Gain tools and strategies to:
  • Assess the shift in risk when transitioning from cost-reimbursable to lump sum contracts
  • Understand key differences in administering changes under a lump sum versus reimbursable contract
  • Address the “cost-reimbursable mindset” that may hinder success on lump sum projects
Agenda

- Introduction
- Overview of Contracting Mechanisms
  - Cost Reimbursable
  - Lump Sum
- Changes
  - Reasons for Changes
  - Timing of Changes
  - Change Management
- Cost Reimbursable vs Lump Sum – A New World
  - Transfer of Risk and Opportunities
Trends Towards Lump Sum

- Why Lump Sum?
- Contractor Growth
- Rising Project Cost
- Failed Partnerships
- Increased Margins for Contractor
- Market Conditions
- Increased Financing Opportunities
- Labor Productivity
- Budget Certainty
- Shift Risk Back to Contractor
- Why Lump Sum?
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Contract Risk

Cost Reimbursable

Hybrid

Lump Sum

Owner Risk

Contractor Risk
Cost Reimbursable Contracts

Cost Reimbursable Contracts

- New/First of a Kind Technology
- No contingency to cover risk
- Increased quality
- Unusual site conditions
- One of a Kind
- Large number of scope changes
- Design incomplete
- Schedule Oriented

Fast Track
Lump Sum Contracts

Maximize Contractor Strengths Market Conditions

Increased Financing Opportunities

Owner Experience Improved Productivity

Tried & True Design

Shared Accountability Cost Certainty

Win - Win

Lump Sum Contracts

Competition
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Reasons for Changes

Owner Initiated

- Design Changes
- Input/Output Changes
- Schedule Changes
- Priority Changes
- Inspection Changes
- Operation Staff Input

Contractor Initiated

- Differing Conditions
- Weather Impacts
- Incomplete Design/RFIs
- Impact of Owner Initiated Changes on Schedule and Productivity
Timing of Changes – Options & Implications

Increased Potential for Change to Impact Cost and Schedule
Change Management

Change Management Support Required

Cost Reimbursable  Hybrid  Lump Sum

Owner  Contractor
Change Management Requirements (Contractor)

**Cost Reimbursable**
- Monitor project events;
- Maintain Log of Unanticipated Events;
- Segregate Costs;

**Lump Sum**
- Monitor project events;
- Provide Timely Notice;
- Demonstrate Entitlement;
- Quantify Additional Work;
- Submit Change Order Request;
- Negotiate Change Orders;
Change Management Requirements (Owner)

**Cost Reimbursable**
- Monitor Cost and Productivity Trends;
- Monitor Design Development;
- Facilitate Timely and Comprehensive Design Input;
- Evaluate Most Effective Means to Address Issues during Design Development;
- Manage Communications;
- Provide Clear Direction in the Event of Changes;

**Lump Sum**
- Evaluate Change Order Requests;
- Negotiate Change Orders;
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Cost Reimbursable Mindset

Owner
I can direct work as I see fit.

Contractor
I will be paid for the work that I perform.

No Incentive to Document
Potential Owner Risks

• Owner directed changes throughout construction
  • Change Directives
  • Directed Acceleration

• Change Management Skill Set
  • Based primarily on estimated quantities, rates and costs;
  • Can include components such as:
    • Loss of Productivity;
    • Extension of time;
Potential Contractor Risks

• Handover from Bid to Execution Team – and beyond
• Unclear Lines of Communication;
• Internal Recognition and Communication of Change;
• Change Management Skill Set
  • Identification of Change
  • Substantiation of Entitlement to Change
  • Methods of Quantification
  • Substantiation of Costs and Time Extensions
• Need for More Robust Project Controls
Transfer of Risk and Opportunities