

New Sellers Market



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- Mike Christensen is the Capital Projects Manager responsible for execution of LNG Regasification Projects for ConocoPhillips. He has over 30 years of international major project experience with 3 different major oil companies.
- He has lived and worked internationally for over 15 years. Mike's experience includes offshore and onshore oil and gas projects in West Africa, Norway, United Kingdom, Kazakhstan, Russia and the United States.
- Mike has published and presented numerous Project related articles.

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TODAY'S CHALLENGE

Executing Projects in a World of:

- **Increased Client and Contractor Opportunities**
- **Market Change in Risk Tolerance**
- **Limited Availability of Qualified Personnel**
- **Increased Global Demands for Manufacturing Capacity & Commodities**
- **Strong Global Economic Growth**
- **Emerging Markets**

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Sellers Market – It need not affect Project Outcomes

Recent Feedback from Contractors

- "We decline to bid due to committed contracts at this time"**
- **"We regret the timing but we respectfully withdraw our proposal due to award of work that commits our resources through the year 2007."**
- **The market "is tired of getting exercised" on projects that don't go forward.**
- **"little interest in lump-summing construction"**
- **"either 100% reimbursable or 100% LSTK is acceptable"**
- **"General marching orders are to turn down FEED work that doesn't look like it is leading to EPC"**
- **"We intend to expand our manpower resources through recruiting and retaining talents,.... although it is difficult when a major decides to fill 600 positions from the same pool"**
- **"We recently had to turn down some FEED work due to lack of resources .. focusing more on projects with a potential to advance to EPC"**

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Sellers Market – It need not affect Project Outcomes

Changes in the Contracting Markets:

- **Lump Sum bids cost +23% more than reimbursable/mixed models due to additional risk premium imposed on Contractors**
- **Contractors now able to include risk premium in their bid and they price risk higher than Operators.**
- **Contractor Profit margins now at a reasonable/sustainable level of 9-12% (Recovered from 2-5% pre- 2002).**
- **Project costs have risen +35% due to general cost inflation since 2002.**

Sourced from IPA SPE presentation May 27, 2006

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Possible Strategy - Use of “Preferred Contractor”

- **Commitment of and Planning for Scarce Resources**
 - **Multiple Projects**
 - East & West Coast US
 - Gulf Coast
 - Europe
 - **Expanded Scope of Work**
 - Pre-Feed, Feed and EPCM
- **Alignment of Business Strategies**
 - **Engaging Contractors that have identified LNG Regasification as a Target Market**
 - **Develop strong relationships as a foundation for success**

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Sellers Market – It need not affect Project Outcomes

Mutual Benefits and Shared Rewards

Cost Management and Reduced Cycle Time:

- **Provides Opportunity for long-term Resource Planning**
- **Reduce contractor/owner Management oversight costs**
- **Retain core Regasification technical expertise and lessons learned**
- **Eliminate multiple contract document packages and bidding cycles**
- **Consistent cost control and reporting**
- **Avoiding Validation of Design by Others (Re-Work)**
- **Allows for Early Commitment in Materials Market**
- **Consistent standards, work processes and deliverables**

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