Background

Projects are Risky
Cost, Schedule & Operability are NOT Very Predictable
Restated: Project Risks Can be Sizeable
(Read: “Expensive”)

Practices Which Minimize Risk are Good…
However, a Zero Risk Project is Not Feasible
Introduction

Yesterday:
- Lots of Suppliers & Contractors
- All Chasing Limited Work
- Over-Supplied Marketplace
- Some Accepting Significant Risks to Get Work
- **Result:** Market Rationalization

Today:
- Lots of Market Demand
- Limited Base of Suppliers & Contractors
- Over-Subscribed Marketplace
- **Result:** Market Expansion
- **Result:** Even More Project Risks
- **Result:** The Price of Risk is Higher
Risk Allocation

Traditional Allocations May No Longer Work
Current Price of Risk - Canceling Some Projects
New Allocation Methods May Be Needed
Who Will Get the HOT POTATO?

Three Perspectives:
• The Owner
• The Contractor
• The Lender
Panel Format

What Does Each Party Want?

What Does Each Party Do?

What Might Each Consider Doing Different?
Risk Allocation – The Owner’s Perspective

Breakout Panel

Joseph C. Brewer, Jr.

Program Director
Dow Chemical

Olefins II - Kuwait
Topics

What Owners Want to Achieve
What Owners Implement
What Owners Might Consider
What Owners Want

High Quality – Meets Operability Needs
Low Price
Fast Schedule
No Project Risk to the Business Opportunity
Minimal Equity Injection – Use of Loaned $s
Off Balance Sheet (for Most Joint Ventures)
What Owners Implement

- Review Qualifications
- Select Bidders
- Bid & Award Contracts & Purchase Orders
- What the Market Will Bear
- Maximize Risk Transfer to Price Tolerance
- Maximize Use of Borrowed Funds (JVs?)
- Minimize Use of Minority Investors
What Owners Might Consider

Search for Other Parties to Share Risk
• Minority Equity Investors
• Lenders
• Insurers
• Licensors

Greater Equity Levels

Limited Recourse Warrantees

It All Depends on the Price of Risk from Each Source Versus Owner’s Internal Cost/Tolerance of Risk
Risk Allocation – The Contractor’s Perspective

Tuhr Barnes
Executive Director
Fluor

Breakout Panel
Infrastructure business development, Public-private partnerships
Topics

What Contractors Want to Achieve
What Contractors Implement
What Contractors Might Consider
What Contractors Want

- Appropriate Levels of Risk
- Improved Profit Margins
- Balanced Resources – Relationships Count
- Good Payment Terms – Not Contractor Financed
- Balance Sheet Protection
- Healthy Clients
Risk vs Return – Control matters
Market Based Margins
Resource Leveling – Balance work across organization
Strong Client’s Preferred – Leverage?
Rapid Payments – Cash is King
Contractor not Insurer – Limited Warranties
What Contractors Might Consider

- Partners for major projects
- Fixed prices
- Guaranteed schedules
- Client SPV’s
- Operating and Maintenance roles

Risk and reward balanced across all business segments, contractor’s are being more selective
Kevin B. Watson
Attorney
Cohen Seglias Pallas Greenhall & Furman PC

Professional Liability
Construction/Commercial/Operating Risks
Topics

What Lenders Want to Achieve
What Lenders Implement
What Lenders Might Consider
What Lenders Want

- Preserve Capital Invested
- Maximize Return on Investment
- Minimize Scope Creep
- Create Long Term Relationships
What Lenders Implement

Project and Participant Checks
Disbursement Controls
Insurance/Bonding Covenants
Guaranty’s
What Lenders Might Consider

- Increased Loan Monitoring
  - Steering Committee Membership
- Loan Syndication
- Stricter Covenants
- Collateralization Options
- Portfolios v. Stand Alone Projects
- Joint Venture v. Single Entities
Thank You