39TH
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Risk Allocation
Panel Discussion

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Redefining Our Industry

Solutions through Collaboration, Innovation and Organization

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

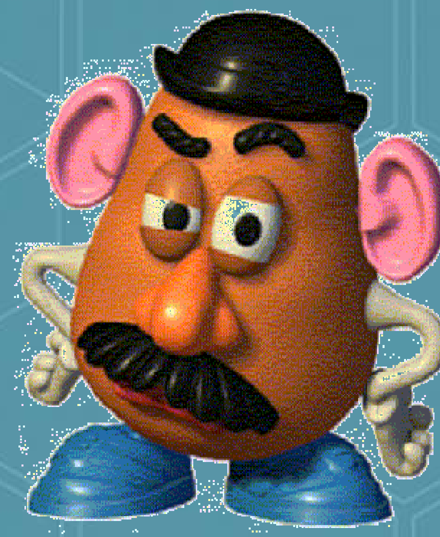
Risk Allocation

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

Three Perspectives

Owner	Contractor	Lender
		
Joseph Brewer	Tuhr Barnes	Kevin Watson
Dow Chemical	**Fluor**	Cohen Seglias Pallas Greenhall & Furman PC
Program Director	**Director**	**Attorney**

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

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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

Breakout Panel

Tuhr Barnes

Executive Director
Fluor

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

What Contractors Implement

- 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

Risk Allocation – The Lender's Perspective

Breakout Panel

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

Questions?

Comments?

Suggestions?

Alternatives?

Thank You

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