



engineering and construction contracting association

Aligning Expectations

- Aligning Owners and Contractors Expectations!
- Key success factors & challenges
 - *Project objectives and priorities*
 - *Approaches to reduce risk*
 - *Management of Scope*
 - *Interface management*



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Aligning Expectations



Rob Kelly

VP Technical Functions
Global Projects - BP



Dean Ragsdale

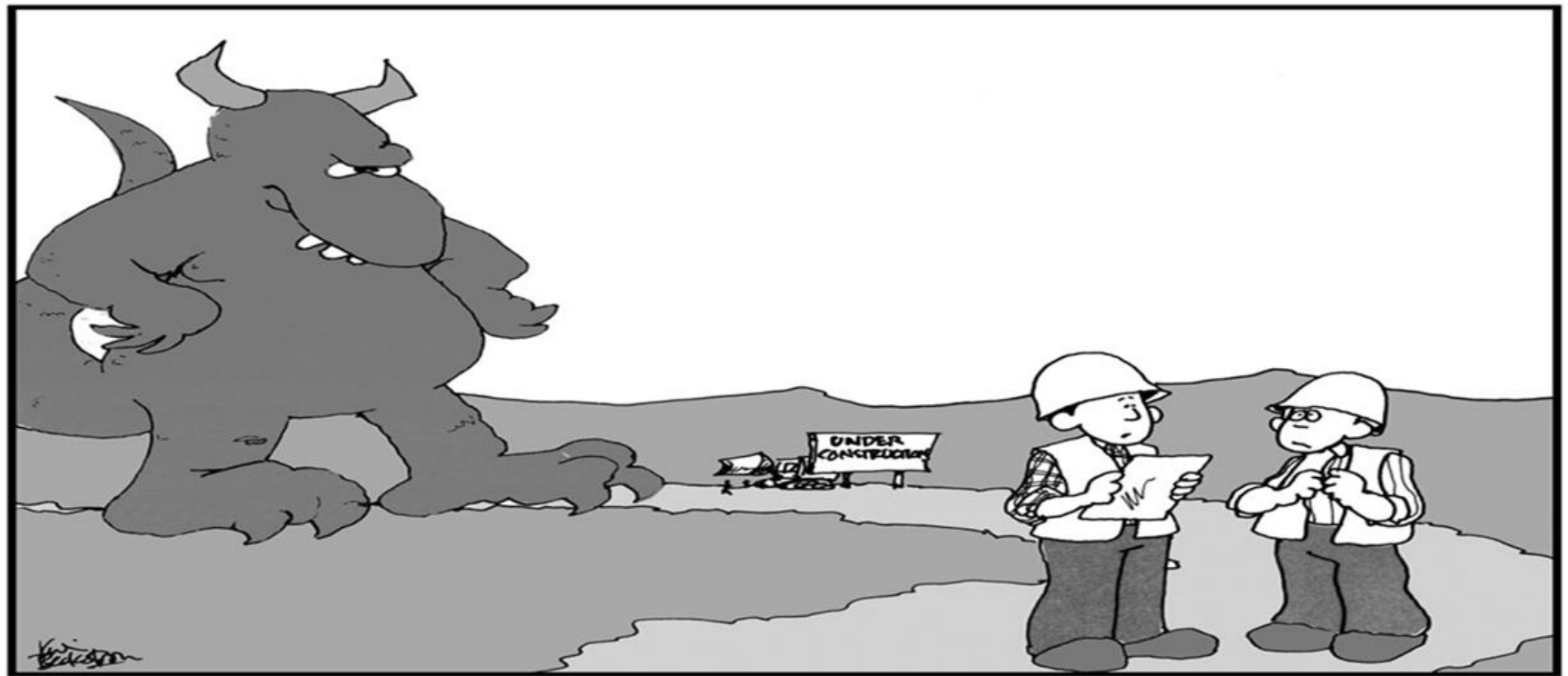
Principal
Ragsdale LLC



George Nash

President
Energy & Construction
URS

Do we have an Alignment Problem?



"Alignment problem? What sort of alignment problem?"

Audience Response

1. If Misalignment - Where is the main cause?

1. Owner Business – Scope Owner
2. Owner Procurement/Legal
3. Owner Project Team
4. Contractor Business development
5. Contractor Project Execution Team



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Aligning Expectations Between Owners and Contractors



Dean Ragsdale

Principal, Ragsdale Group L.L.C.

Alignment Definition

“Alignment is the condition where appropriate project participants are working within acceptable tolerances to develop and meet a uniformly defined and understood set of project objectives.”

Construction Industry Institute (CII) *Best Practice Summary: 1.02 Alignment*

“... there is no known process or strategy in the industry that can be used to strategically align owner and contractor resources.”

CII Report 111-2

Alignment

Generally:

Alignment between Owners and Contractors means:

- Owners get a safe high quality project with cost and schedule certainty
- Contractors deliver a safe high quality project with cost and schedule certainty

Aligning Expectations

Interview of Experts on Alignment Topics

Claim Expert One:

Alignment

Safety

Misalignment

Scope of Work – FEED Documents
are not Issue for Construction Quality

Contractor Promises “A” Team

Schedule Risk – Misunderstood

Claim Expert Two:

Alignment

Safety

Misalignment

Scope of Work – Change Management

Scope of Work – Design Development

Schedule Management – Changes

Aligning Expectations

Current Owner Contractor Alignment Methods

1. Contractor – Owner Alignment Sessions
Bid Explanation, Two Way Contract Negotiation, Project Kick Off Meeting, Regular Alignment Sessions
2. Executive Sponsor Programs
3. Contract Risk Apportionment between Owner and Contractor



Aligned

Moderately
Aligned

Misaligned

Aligning Expectations

Major Areas for Alignment / Misalignment

1. Safety
2. Scope of Work
3. Quality Requirement of Work
4. Schedule and Schedule Slip Risk
5. Cost and Cost Growth Risk
6. Change Management

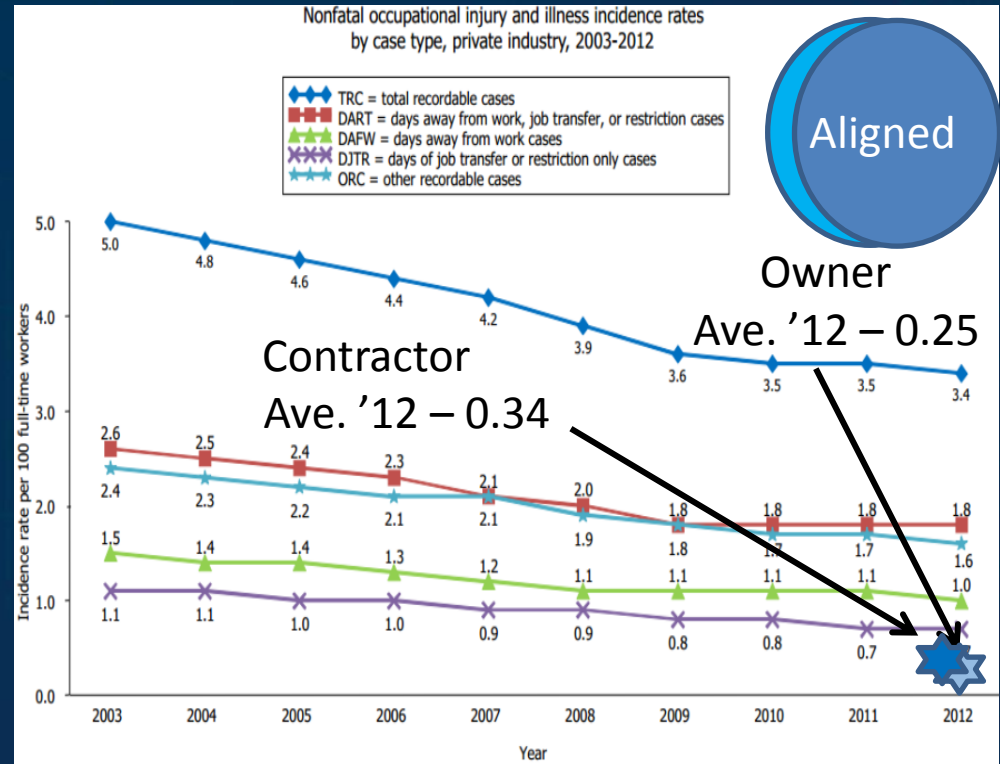


Aligning Expectations

Safety:

Measurement is very easy
to understand by both
Contractors and Owners.
Standard Method:

Rate/ 200K Man Hours





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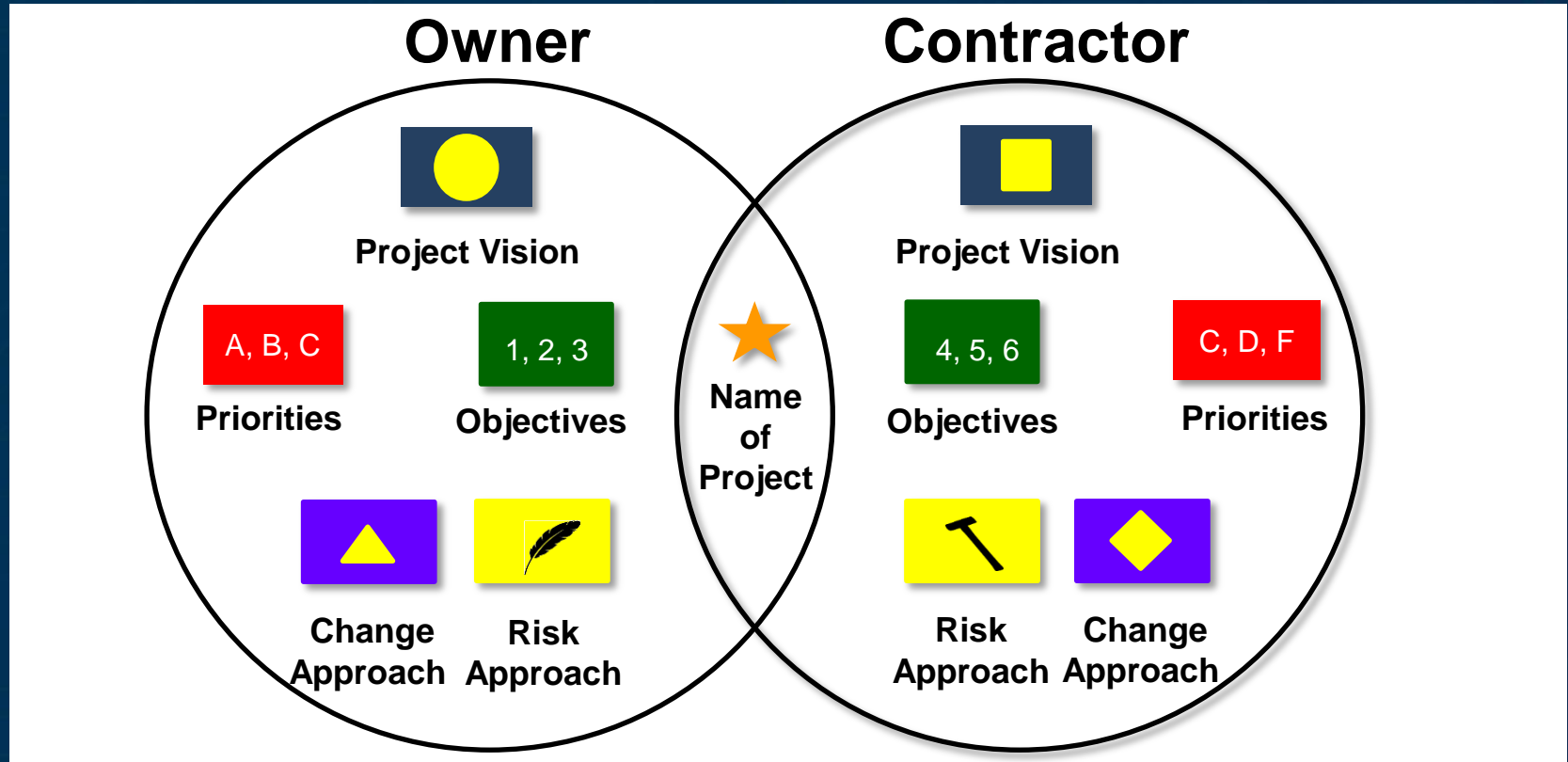
Aligning Expectations Between Owners and Contractors



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President, Energy & Construction – URS

Q: How is this project going to work out?



A: You guessed it . . .

- **Fact:**
Owner-contactor misalignment is the Achilles Heel of project management.



Much has been written about correcting owner-contractor misalignment . . .

DETECTING STAKEHOLDER MISALIGNMENT

*WRITTEN BY: George Konstantopoulos
Project Times - January 19, 2011*

Strategy Misalignment: The Symptoms, Dangers and Treatment

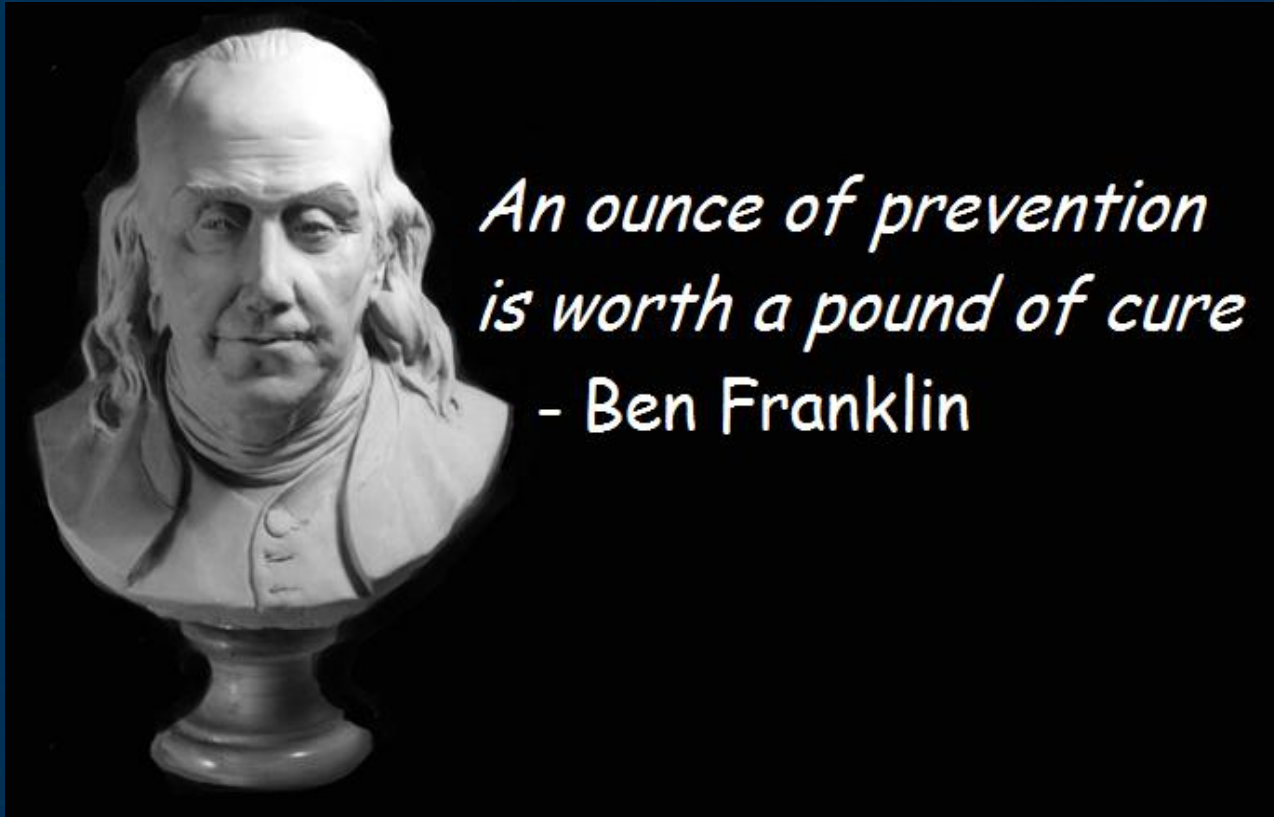
*WRITTEN BY: Joe Evans
Method Frameworks – April 5, 2010*

Chronic Misalignment

Why leadership's calls for better organizational alignment don't work & how a simple 'value language' can remove common barriers

*WRITTEN BY: Gregory Dickinson and Michael Puleo
Deloitte Review. n.d.*

. . . but, in the words of Ben Franklin . . .

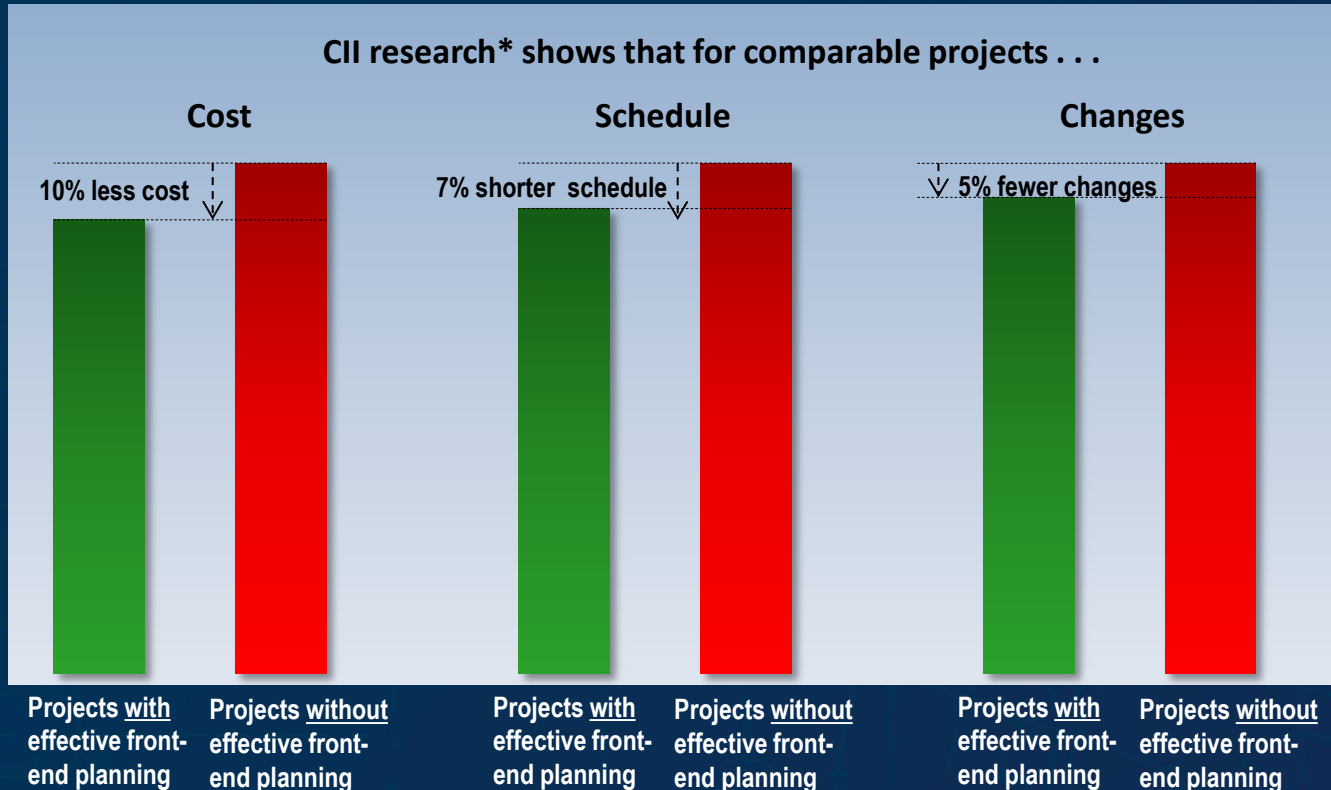


The “ounce of prevention” is robust front-end planning . . .



**Close collaboration with Clients is
critical throughout each step**

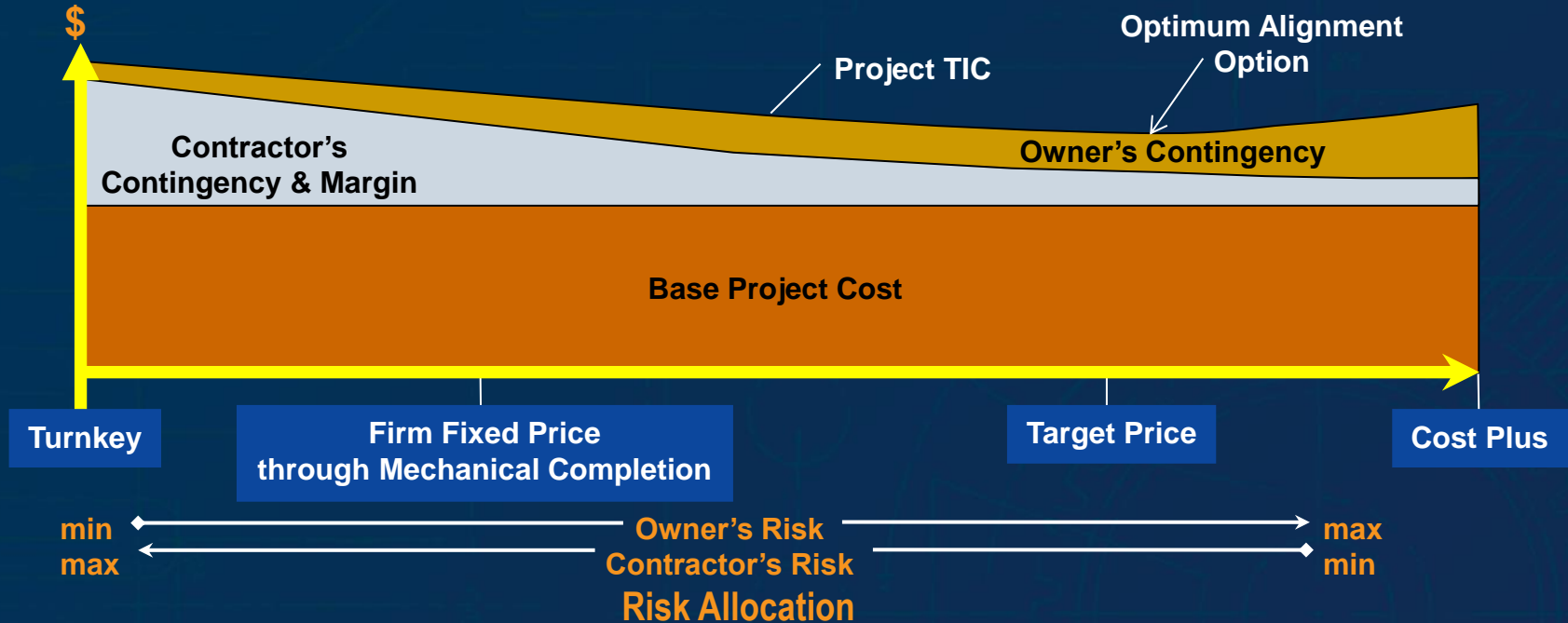
Industry research confirms the importance of front-end planning . . .



* Source CII Research Team 213, Sample of 609 projects with total TIC of \$37B

Commercial Approach

- Spectrum of options
- The risk extremes are “turnkey” and “cost plus”
- The cost extremes are “turnkey” and “target price”
- The control extremes are “turnkey” and “cost plus”
- Owner chooses optimal cost/risk/control allocation



Implementation and Opportunities

Contracting – Target Pricing Success

Customer	Description	Contract (\$M)	Final (\$M)	Over Under
Southern Company	4 FGD Retrofit	199	170 (est.)	(14.6%)
Wisconsin Energy	2 FGD & 4 SCR Retrofit	596	511	(14.3%)
Tennessee Valley Authority	3 x 1 GE 7FA Combined Cycle – 890 MW	168	141	(16.1%)
Tennessee Valley Authority	Nuclear Steam Generator Replacement	173	170	(1.7%)
Public Service of New Hampshire	FGD	320	301	(5.9%)
Entergy	Nuclear Steam Generator Replacement	192	185	(3.6%)
Constellation Energy	2 FGD	551	551	0.0%
Detroit Edison	2 FGD	364	365	0.3%
Tennessee Valley Authority	2x1 SW 501F Combined Cycle – 500 MW	255	331	29.8%
PSE&G	1 FGD, SCR & ACI	767	781	1.8%
PSE&G	1 FGD, SCR & ACI	43	43	(0.0%)
Monongahela Energy*	2 FGD Retrofit	242	245	1.2%
Tennessee Valley Authority	2 FGD Retrofit	403	422	4.7%
Tennessee Valley Authority	1 FGD Retrofit	224	232	3.6%
Pacific Gas & Electric	Nuclear Steam Generator Replacement	288	253	(12.2%)
Exelon Corp	Nuclear Steam Generator Replacement	166	155	(6.6%)
Reliant	1 FGD Retrofit	292	301	3.1%
Salt River Project	400 MW Coal Project	59	64	8.5%
Allegheny Energy*	3 FGD Retrofit	298	337	13.1%
PSEG	Nuclear Steam Generator Replacement	131	138	5.3%
Wisconsin Electric	2x1 GE 7FA Combined Cycle – 500 MW	106	101	(4.7%)
Wisconsin Electric	2 FGD & SCR Retrofit	229	242	5.7%
Detroit Edison	SCR Retrofit	110	104	(4.5%)
Wisconsin Electric	2x1 GE 7FA Combined Cycle – 500 MW	186	204	9.7%
Ameren UE	Nuclear Steam Generator Replacement	111	105	(5.4%)
Entergy	Nuclear Steam Generator and Reactor SGR and Vessel Head Replacement	102	95	(6.9%)
Detroit Edison	SCR Retrofit	124	120	(3.2%)
Wisconsin Electric	SCR Retrofit	41	41	0.0%
Detroit Edison	SCR Retrofit	126	132	4.8%
Detroit Edison	4x1 GE 7EA Simple Cycle – 320 MW	37	37	0.0%
		6,903	6,877	(0.38%)

* Cost Reimbursable

Executed nearly \$7 billion in work, with an accrued result of (0.38%) below budget

Owner-contractor alignment do's and don'ts . . .

Element	Do's	Don'ts
Scope	<ul style="list-style-type: none">• Ensure scope defined in detail or if not, then initiate an initial phase to define the scope collaboratively	<ul style="list-style-type: none">• Proceed into an EPC/CM project with poorly defined scope
Risk	<ul style="list-style-type: none">• Place project risk with the party that has most control over the outcome	<ul style="list-style-type: none">• Assume both parties share a common vision of risk
Frontend Planning	<ul style="list-style-type: none">• Take time in the frontend planning to ensure scope is well defined, roles and risks are understood, and a sound execution strategy and plan is developed	<ul style="list-style-type: none">• Jointly give frontend planning short shrift in order to get shovels in the ground
Communication and Trust	<ul style="list-style-type: none">• Establish open, trusting communication	<ul style="list-style-type: none">• Allow “us vs. them” culture to develop
Surprises	<ul style="list-style-type: none">• Prevent surprises through disciplined and effective project controls and regular joint project meetings	<ul style="list-style-type: none">• Drop “bombshells” in interface meetings
Change Control	<ul style="list-style-type: none">• Establish the change control philosophy and methods upfront	<ul style="list-style-type: none">• Jointly confuse management of funding with change control

Aligning Expectations

Scope of Work:

- Process Flow Diagrams
- Piping & Instrument Diagrams
- Electrical One Line
- Plot Plans
- Written Standards and Specifications

Owner Measurement: IPA Front End Loading
Contractor Measurement: Unknown

Moderately
Aligned

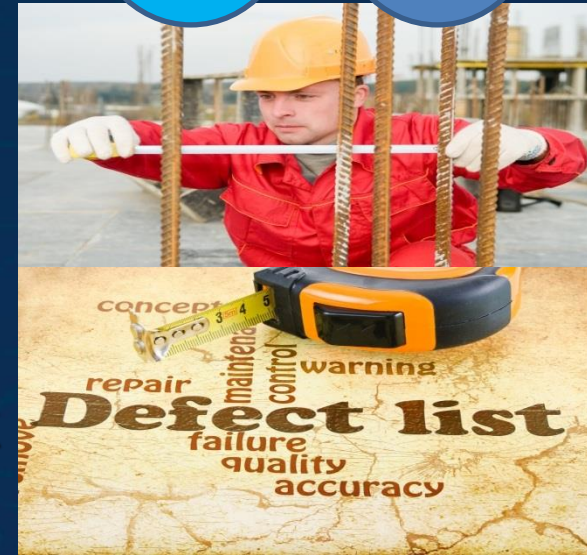


Aligning Expectations

Quality Requirements of Work

- Quantitative
- Individually Defined / Corporately Defined
- Quality Systems – ISO 9000s
- Lagging Indicator: Re-performance of work

Misaligned



Owner Measurement: Unknown

Contractor Measurement: Defective Welds



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Owners View

- Safe Predictable Delivery
 - Quality, Cost & Schedule
- No Surprises
 - Alignment around objectives important

Owners View – What gets in way?

- Scope – is it well enough defined ?
- Perspective of “what good looks like”
- Allocation of risk – appropriate ?
- Different business and financial drivers
- Custom-built versus Standard solutions

Owners View to Improve Alignment

- Fewer/Deeper Relationships
 - Repeat business with fewer providers – Global Agreements
 - Get to know how to work well together
 - Current performance = Future business
 - Build Trust : willingness to listen & act on input
 - Seeking advice from contractors on how to do better based on their broader perspective

Fewer/Deeper Relationships – How?

- Get aligned at the top
 - Personal relationships do matter
 - Regular Executive Meetings - Portfolio review
 - Discuss portfolio performance & priorities
 - Listen & take action to improve
 - Resistance to Change Management (Scope)

Fewer/Deeper Relationships – How?

- Connect Bridge to Engine Room on Project
 - Right Project Leadership is critical – blocking/bad behaviors won't survive
 - Be very clear on roles & expectations
 - Owner accountable for setting vision & project governance
 - Contractor accountable for delivery of the agreed milestones

Fewer/Deeper Relationships – How?

- Connect Bridge to Engine Room on Project
 - Kick-off Alignment Workshop – set tone
 - Project Sponsors meetings
 - War Rooms – measure the right things
 - Build Culture - escalate areas of misalignment to management for resolution

Aligning Expectations

- “Don’t make perfect the enemy of good”
 - Voltaire : French Philosopher (1694-1778)

Aligning Expectations

Schedule and Schedule Slip Risk

- Work Completion Date
- Visual Work Durations
 - MS Project*
 - Primavera*
- Poor to No Risk Apportionment
- Contract Type: Reimbursable – Owner Risk; Lump Sum – Contractor Risk



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Cost and Cost Growth Risk:

- Contract Cost - Variable
- Poor to No Risk Apportionment
- Owner Profit Margin – 8 to 30%
- Contractor Profit Margin – 6 to 25%
- Contract Type: Reimbursable – Owner Risk; Lump Sum – Contractor Risk



Aligning Expectations

Change Management:

- Missing Change Process
- Often Critical to Profitability
- Owner wants No Change
- Contractor wants No Change
- Change Board of Owner and Contractor





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