Optimized Owner – Contractor Risk Sharing

Assigning Risks Where They Can Best be Managed

Steve Wardle – Facilitator
Scott Sharp – Owner Representative
Harvey Vigneault – Contractor Representative
Assigning Risks Where They Can Best be Managed

Scott Sharp
Senior Vice President Projects – Chevron Phillips Chemical Company LP
Scott Sharp

• Over 35 years in the industry
• Mega project sponsor experience USGC and International
• SVP, VP, various manufacturing and operations management positions with Standard Oil, Chevron Chemicals and Chevron Phillips Chemicals
• JV and consortium experience with various risk-share scenarios with the EPC’s
Assigning Risks Where They Can Best be Managed

Harvey Vigneault
Chief Operating Officer – Technip Onshore North America
Harvey Vigneault

- Over 40 years in the Industry
- Over 30 years of project management
- Mega Project Experience worldwide
- SVP, VP and PM positons held with Major EPC companies
- JV, Consortium, Prime Contractor roles with EPC partners and various risk-share scenarios with Owners
Assigning Risk Where They Can Be Best Managed

Assigning EPC Risk – who is in the best position (Owner/Contractor) to control/manage these key project risk areas and why:

1. Engineering Services
2. Procurement
3. Craft Labor Rates
4. Craft Productivity
5. Pre-Comm and Commissioning
Lump Sum models are intended to transfer risk to Contractor – *can Contractors actually carry such risk? Is the Owner seeking to transfer risk or to minimize costs?*

History shows that, ultimately, final risk resides with Owner.

Do mixed-model contracts more appropriately address balanced risk sharing?
1. Engineering Services

- Contractor core competency
- Cost of Services
- Impact on Construction
- Impact on Schedule
- Impact on Plant Performance

Who is best suited to “own” these risks to drive best behaviors, most cost effective and predictable outcomes?
2. Procurement

- EPC’s and Owners have this as a core competency
- Over-committed suppliers
- Region-based supply chains
- Industry experience drain
- Performance of others (quality, cost, schedule etc....)
- Levels of inspection
- Low Cost equipment performance
2. Procurement (Contd..)

• How does purchasing (pre-EPC phase) long lead critical equipment influence this?

• How do, or don’t, master service agreements of frame agreements influence this?

Who is best suited to “own” these risks to drive best behaviors, most cost-effective and predictable outcomes associated with quantities, costs, schedule and quality?
3. Craft Labor Rates

- Volatility in the market and market conditions, local and global, influence
- Current craft demographic is challenging
- Labor rates influence productivity
- High uncertainties drive high Contractor contingencies

*Who is best suited to “own” this risk to drive best behaviors, most cost effective and predictable outcomes*
4. Craft Productivity

• Contractors best positioned to predict and manage productivity
• Productivity is influenced by Supervisor to Craft ratios and appropriate staffing of indirect and direct labor
• High uncertainties drive high Contractor contingencies

Who is best suited to “own” this risk to drive best behaviors and steer most cost effective and predictable outcomes?
5. Pre-Comm and Commissioning

- Turnover at MC or RFSU
- Post turnover support
- Safety risks
- Challenges with simultaneous operations
- Meeting shareholder commitments

 Who is best suited to “own” these risks to drive the most cost effective and predictable outcomes?
Risks we discussed:
1. Engineering Services
2. Procurement
3. Craft Labor Rates
4. Craft Productivity
5. Pre-Comm and Commissioning

Thank You