

SAFETY

IS EVERYONE'S JOB

CONTRACTING

IS EVERYONE'S JOB

PerspECCtive

Theme:

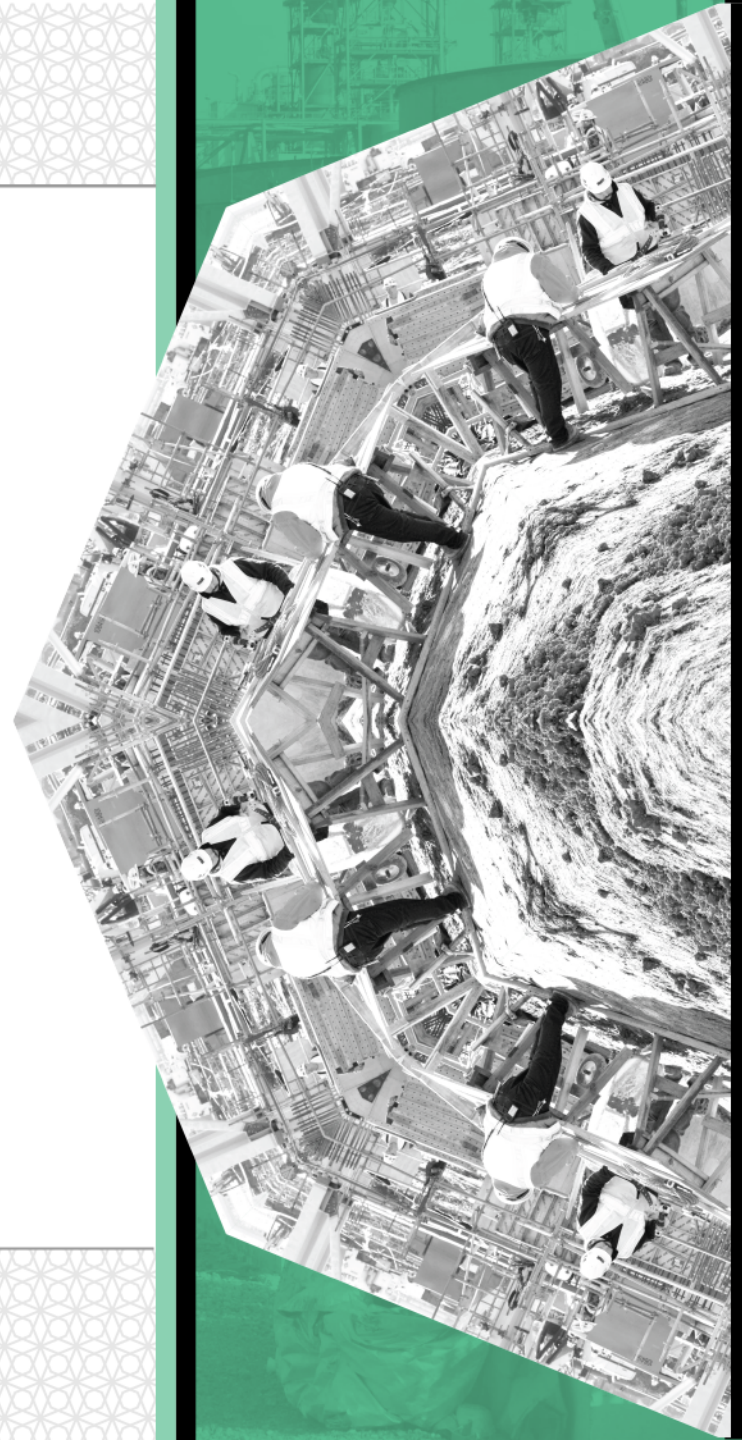
Win Together to Share Success NOW!

The Future of Contracting: Simple is Beautiful

Year:
2019

Date:
Aug. 28-31

Location:
**The Broadmoor
Colorado Springs, CO**



Our presenters

Moderator



EASTMAN

Keith Morley

Director of
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Panel Members



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FLUOR®

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Vice President
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The Problem:

Misguided contracting can make already complex projects even more difficult to execute... and destroy value for both owners and contractors

The Solution:

Our industry needs to move...

From...

Contracts that are:

- Designed to push off risk
- Unnecessarily complex
- Strictly transactional

To...

Contracts that are:

- ① Balanced
- ② Simple
- ③ Driving the right behaviors

A balance scale is shown against a clear blue sky. The scale is perfectly balanced. On the left pan sits a dark, textured, oval-shaped stone. On the right pan sits a lighter, smoother, oval-shaped stone. The beam of the scale is a flat, light-colored wooden plank. The fulcrum is a large, triangular, light-colored stone. The entire structure is placed on a rough, dark rock surface.

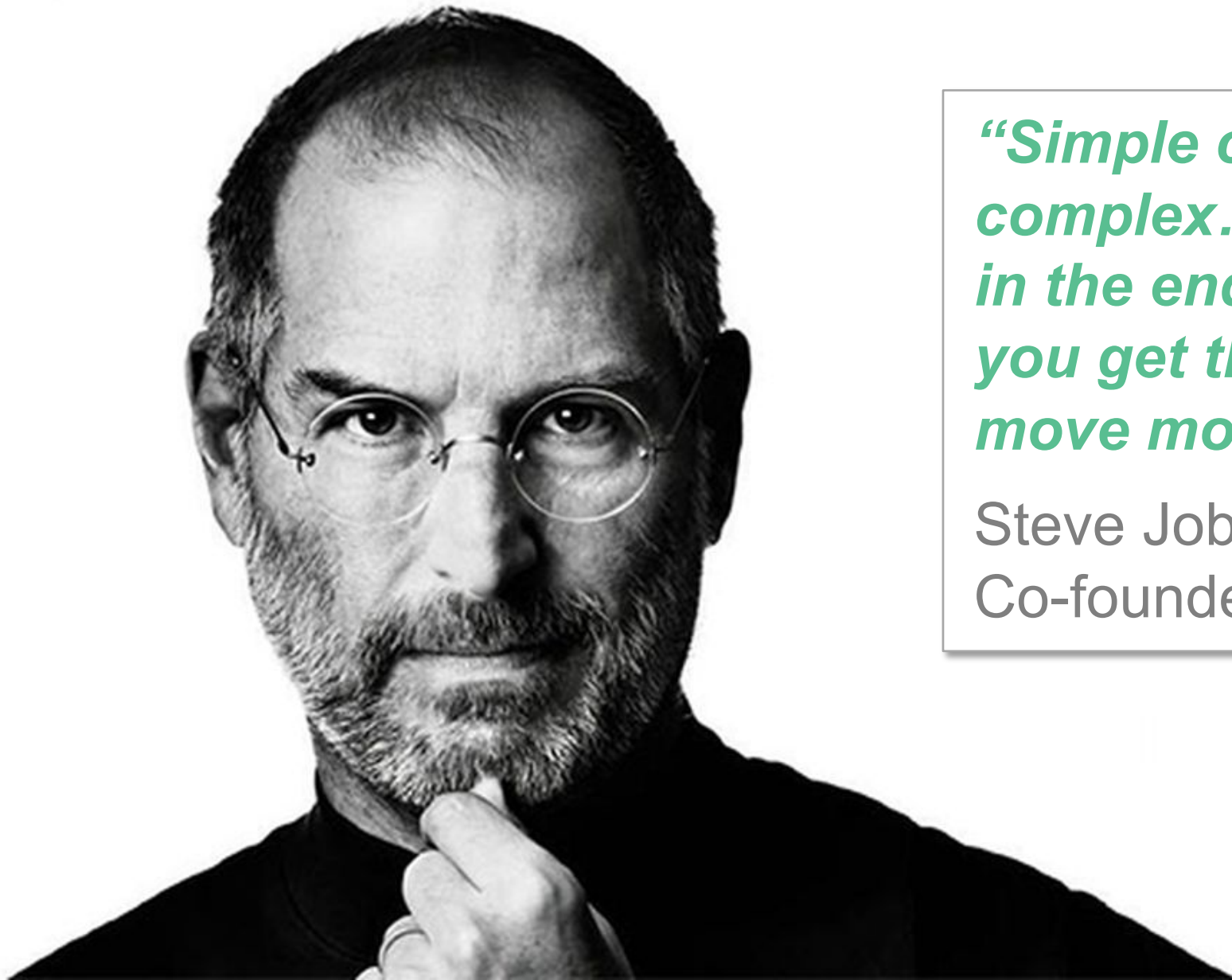
Owner

Contractor



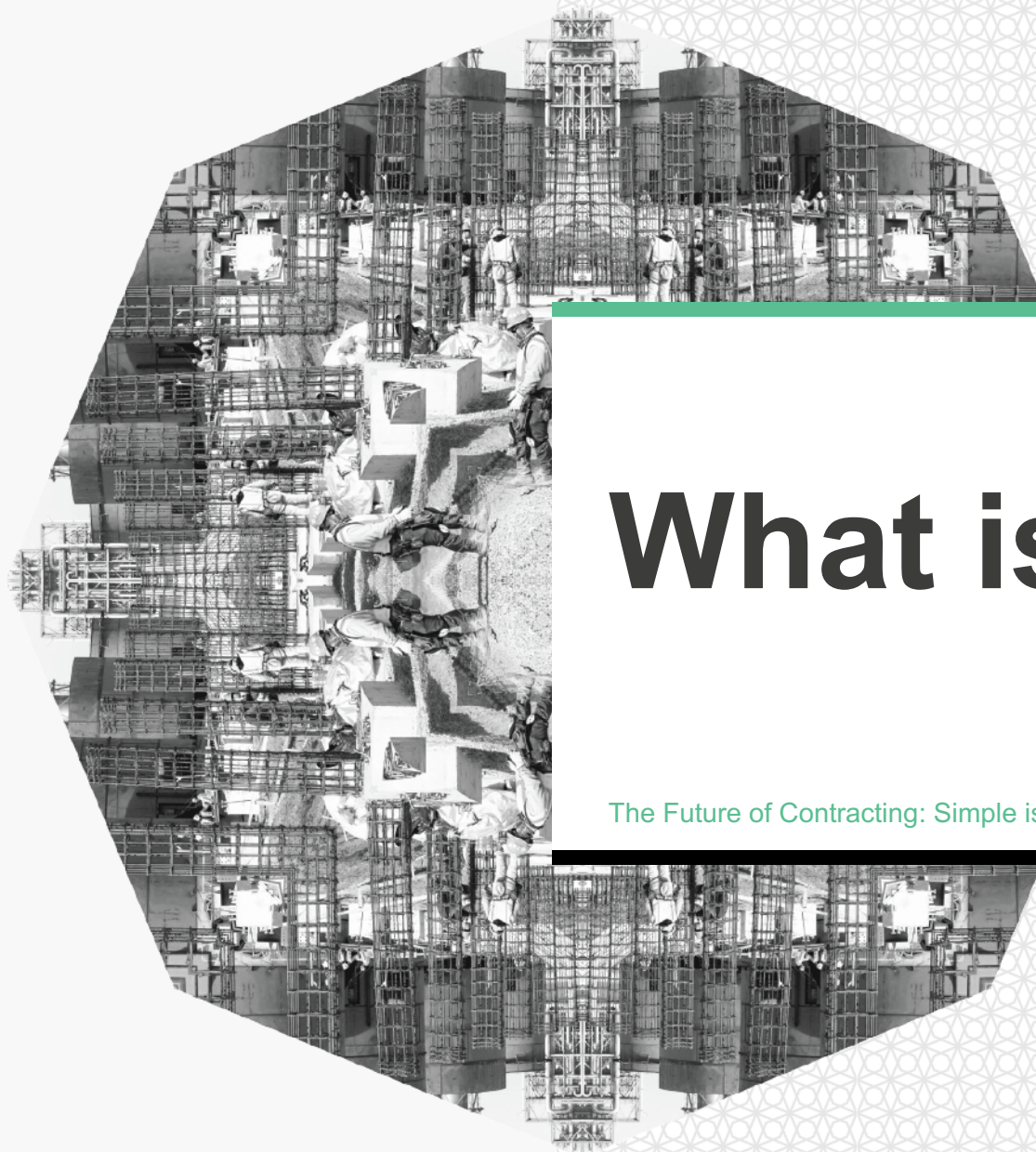
Achieving balance

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“Simple can be harder than complex... but it’s worth it in the end, because once you get there you can move mountains”

Steve Jobs
Co-founder of Apple



What is simple?

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- /Autonomous
- /Sensing
- /Communication
- /Battery
- /Navigation
- /Microphone
- /Ecology

100m

48
mph



Vehicle status and navigation information displayed on the dashboard screen.

- Speedometer: 48 mph
- Distance to next turn: 100m
- Navigation map showing the current route and upcoming turns.
- Vehicle status indicators: Fuel level, battery level, and other system health metrics.
- Vehicle model and specifications: A detailed view of the car's exterior and interior, along with its technical specifications.



Behavior is the best indicator of outcomes

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Overview of concept

Structure

- Cost reimbursable (bare cost / no significant profit)
- Contractor fee / profit
 - Fixed monthly fee
 - Quarterly discretionary award based on behavior
 - Completion bonus based on final results

Benefits

- **Balanced** – contractor accepts discretionary fee in exchange for “guaranteed” profit and significantly lower cap on liability
- **Simple** – no complex formulas and only a few components
- **Focused on driving the right behaviors**

The goal is to ensure that both the owner and contractor are focused on the project and not on the contract

Implementation details

	Basis	Timing	Details
Completion incentive	<ul style="list-style-type: none"> Discretionary 	<ul style="list-style-type: none"> At final completion 	<ul style="list-style-type: none"> Based on final results – e.g. safety, cost, schedule, quality, etc. – and other factors considered by owner
Award fee	<ul style="list-style-type: none"> Discretionary 	<ul style="list-style-type: none"> Quarterly 	<ul style="list-style-type: none"> Based on mutually agreed-upon scorecard focused on driving the right behaviors for a successful project – e.g. responsiveness, communication, leadership support, progress, etc. Any amount not awarded in a given quarter is rolled into the completion incentive pool to give contractor “second bite at the apple”
Fixed fee	<ul style="list-style-type: none"> Fixed 	<ul style="list-style-type: none"> Monthly 	<ul style="list-style-type: none"> Includes profit and risk Aided by lower caps on contractor liability (i.e. less than fixed fee)
Cost	<ul style="list-style-type: none"> Reimbursable 	<ul style="list-style-type: none"> Monthly 	<ul style="list-style-type: none"> Includes work-hours, burdens, overhead, salaries, etc. No (significant) profit included here

Illustrative impact of behavior-focused contracting

Engineering is behind schedule, and the target date for starting construction in the field is approaching. What does the contractor do in each of these contracting scenarios?

Scenario A: Typical Contract

- Hybrid contract with some fixed and some reimbursable portions
- Contractor paid based on progress (i.e. earned value)
- There are incentive payments for achieving target dates for key milestones – e.g. mobilizing in the field

- **Contractor will mobilize in order to achieve milestone payment (i.e. needs the cash)**
- **This leads to:**
 - Inefficient start to construction
 - Need to resequence / replan engineering – with possible loss of control
 - Decreased productivity
 - Increase in total project cost and schedule

Scenario B: Simplified Contract

- Reimbursable contract (see previous slide)
- Limited downside risk for the contractor
- Only incentive is a discretionary fee based on mutually agreed-upon criteria focused on driving the right behaviors

- **Contractor will recommend delaying field mobilization because:**
 - It's the best thing for the project
 - He gains nothing with a premature start
- **Owner rewards contractor's leadership and decision-making via discretionary fee**



Call to Action

What can each of us do to
drive better contracting?

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