

BWEA 28: SECURING THE FUTURE

Offshore Wind Delivery Group

PAUL MCQUILLAN

PROCUREMENT ISSUES

Concern Regarding Offshore Projects



- Problem
 - Perception of difficulty with traditional Turnkey/EPC delivering the goods
- Perceived Causes
 - Market conditions
 - Bidding cost
 - EPC contractors' experiences
 - More sophisticated risk analysis by contractors
 - Other problems

Problems Highlighted at Workshop



- The level of information available at tender/contract stage
- Design not having the benefit of supply chain input
- Lack of understanding of the impact of risks on various parts of the supply chain, causing:
 - ineffective allocation of risk and
 - uninformed pricing and double accounting of risk

Debate Regarding Risk



Challenge

- In order that projects are better informed in deciding on the appropriate allocation of risk:
 - promote a better understanding of the more significant risks
 - promote a more efficient management of key risks

Action

- Produce a Schedule of Major Risks important to various parts of the supply chain:
 - to include comments on the risks
 - aimed at assisting communication/ providing an agenda for discussion between those involved and avoiding supply chain management of risk by
 - higher prices
 - qualification to bids or
 - not bidding

Debate Regarding Procurement



Challenge

- To stimulate real engagement at early stages
 - to avoid ineffective allocation of risk and uninformed pricing and double accounting of risk, and
 - to harness the best know how, to inform design and schedule/programme decisions
- To consider a change in contract dynamics to emphasis performance over sanction

Action

- Produce a Note on Procurement Issues with the following themes:
 - EPC style
 - Multi Contract
 - Alliance working
 - Target Cost Models/Incentives

Debate Regarding Procurement (Cont'd)



EPC Style – including:

Grown up conversations on risk allocation/transfer between

- EPC contractor and subcontractors,
- EPC contractor and Owner
- Dealing with residual risk (which EPC contractor cannot pass down the supply chain)
- Giving EPC contractor (and therefore subcontractors) sufficient information and time to bid effectively

Multi Contract – including [all the things previously wrapped in EPC]

- Compatibility of design and standards
- Project management of interfaces
- Ring-fencing responsibility for performance

Debate Regarding Procurement (Cont'd)



Alliance Working

- Mutuality of interest
- Transparency, sharing know how
- Interlocking or overlapping alliance relationships can smooth the entire project

Target Cost Models and Incentives

- Alignment of objectives
- Incentive payments (and penalties)
- Fundamental question: does the risk of target cost contracting exceed risks which actually reside in traditional EPC contracting
- Devices to fine tuned risks

Issues for Consideration



- More and earlier engagement with supply chain:
 - to inform design and schedule/programme
 - to gain the benefit of know how/experience
 - to understand risks (and the impact of their allocation)
- Better focus on major risks with less reliance on financial sanctions
- More consideration of overall contract strategy
 - Joined up approach
 - Relating contracting philosophy more closely to commercial objectives

AND FINALLY - MACRO THOUGHTS



Current Dynamics

- *Turbine suppliers:* attending to onshore and export business
- *Installation contractors:* waiting for crystallisation of pipeline projects
- Government support

AND FINALLY



PUNCH LINE

- How can conditions be improved for turbine supplier and installation contractor to focus on offshore projects?



THE END

BWEA - Offshore Wind Delivery Group

Paul.mcquillan@pinsentmasons.com