

Cost Control Back to the Basics

Pirayeh Long

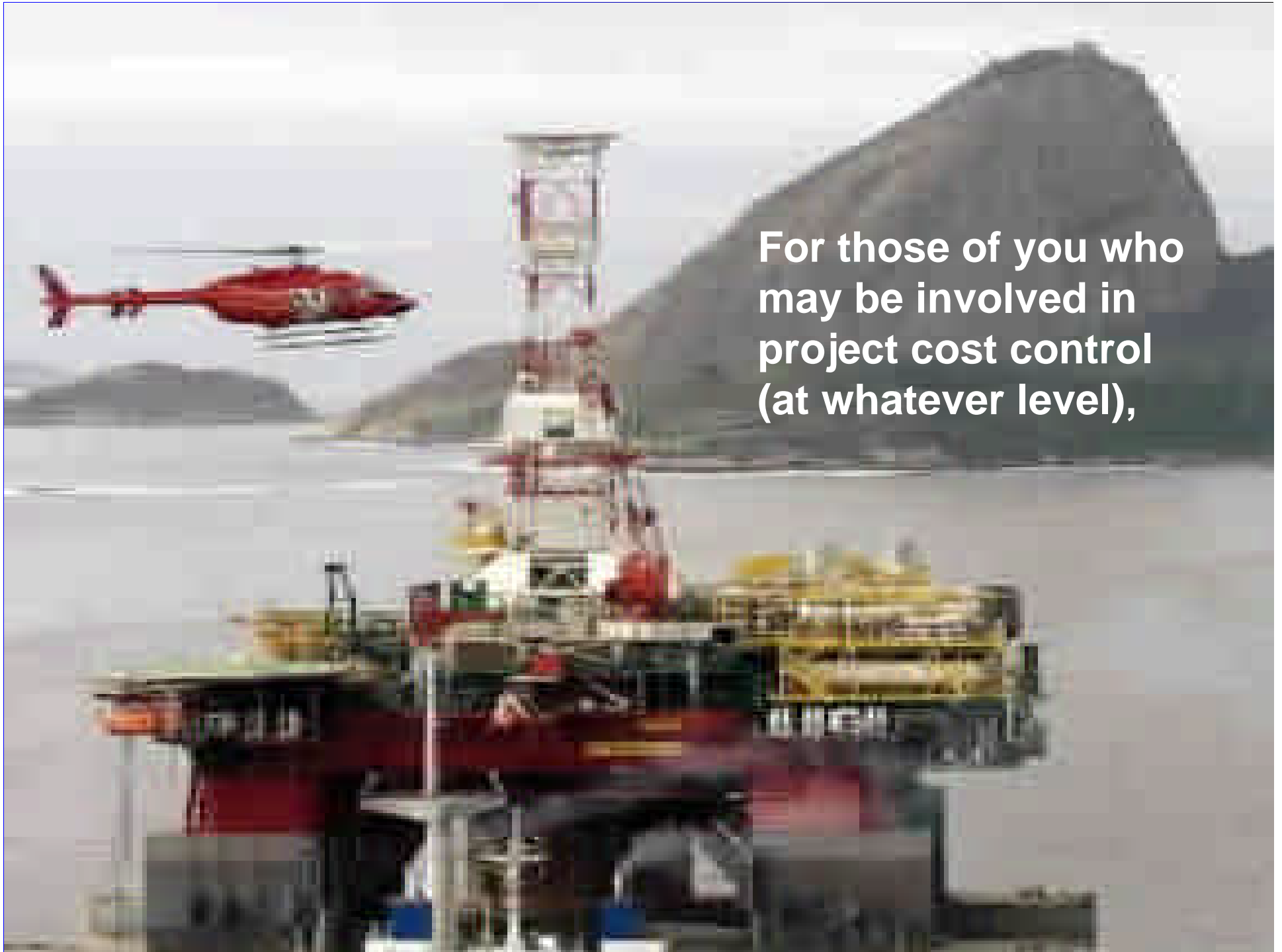
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QUALITY
ASSURANCE
AND THE
SINKING OF
THE
LARGEST
OFFSHORE
OIL
PLATFORM

March 2001



**For those of you who
may be involved in
project cost control
(at whatever level),**

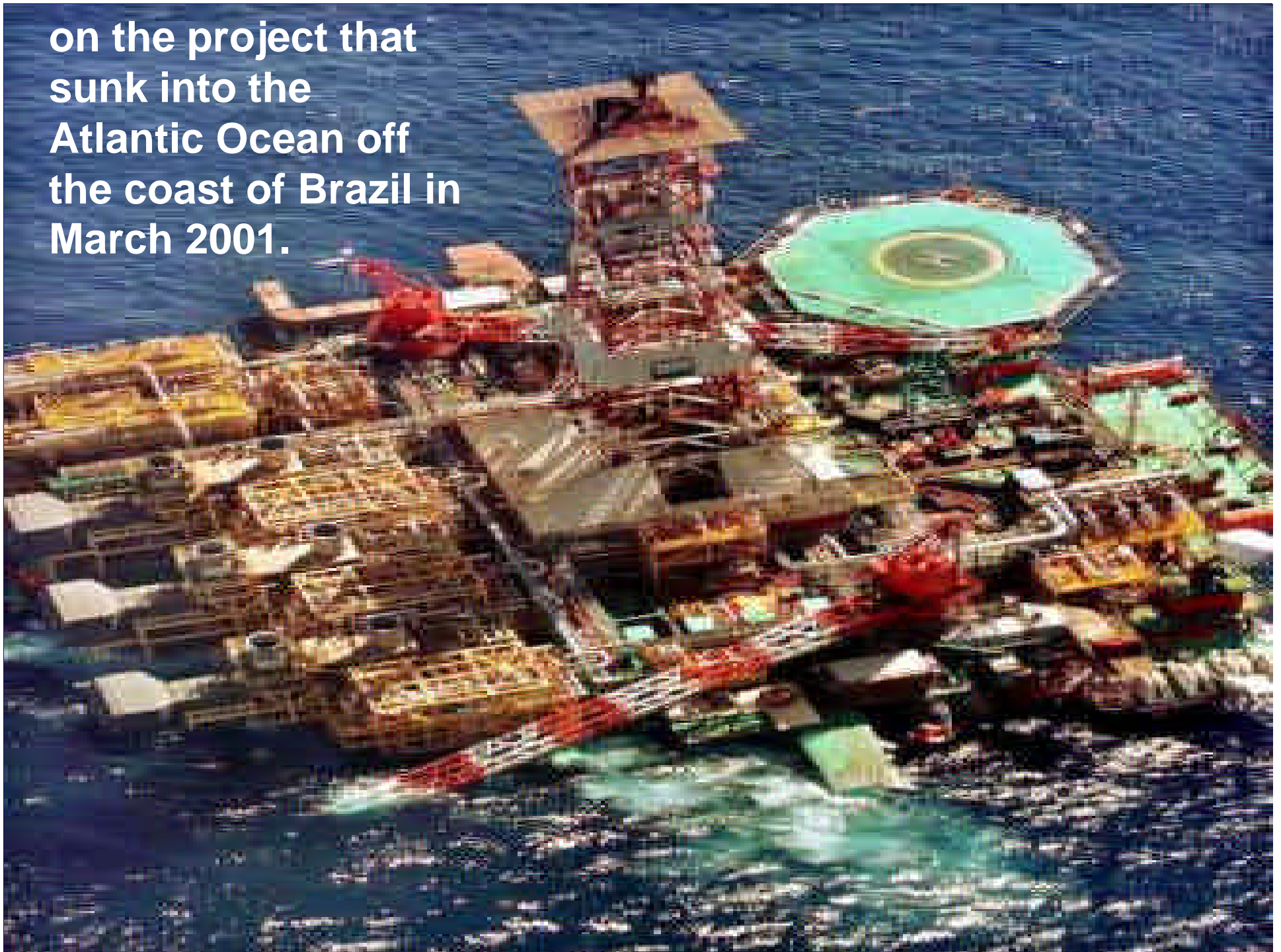


**please read this quote from
a Petrobras executive,**

**extolling the benefits
of cutting quality
assurance and
inspection costs,**



on the project that
sunk into the
Atlantic Ocean off
the coast of Brazil in
March 2001.





"Petrobras has established new global benchmarks for the generation of exceptional shareholder wealth





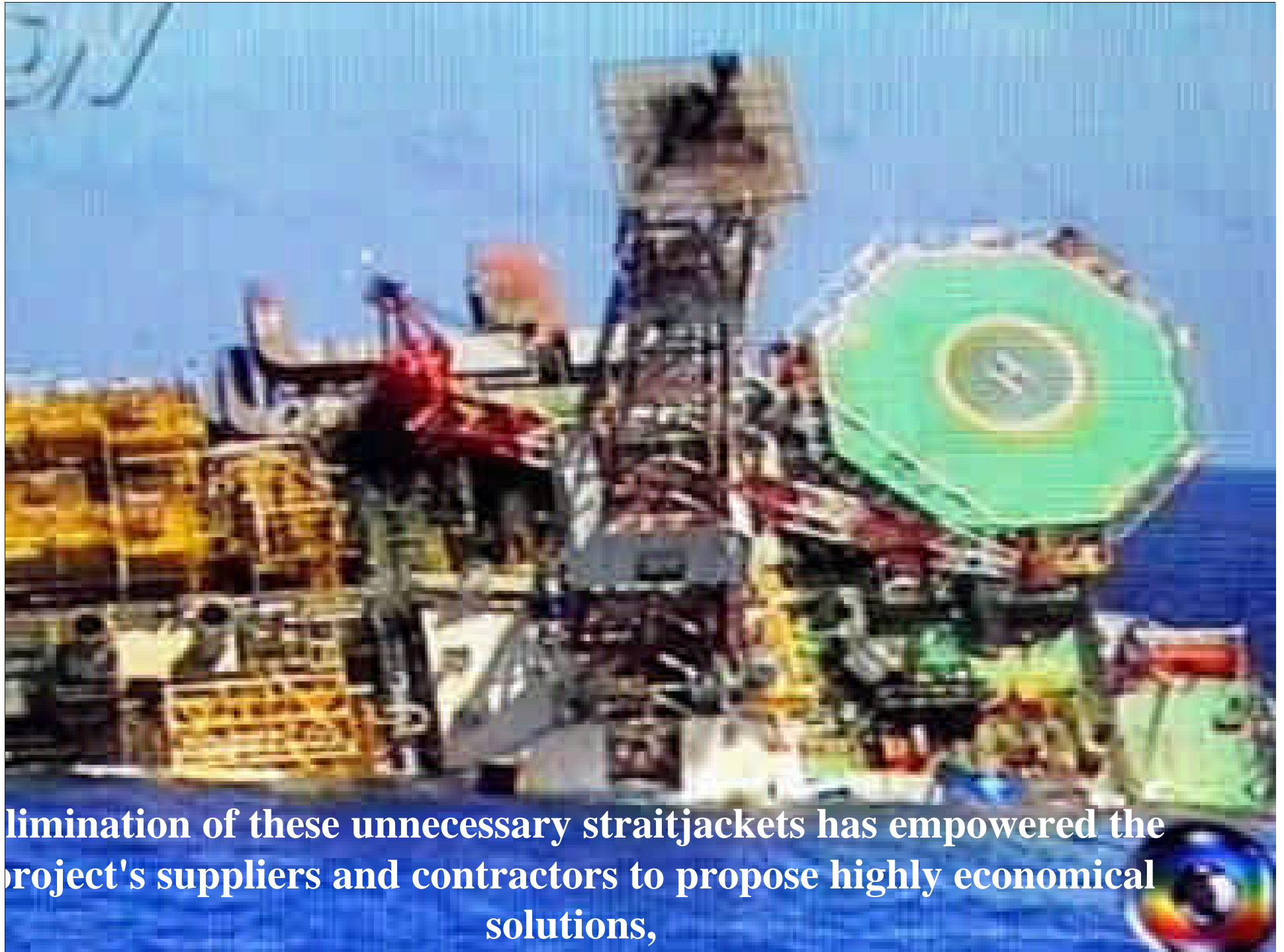
**Through an integrated network of
facilitated workshops,**

the project successfully rejected the established constricting and negative influences of prescriptive engineering,





onerous quality requirements, and outdated concepts of inspection and client control.



Elimination of these unnecessary straitjackets has empowered the project's suppliers and contractors to propose highly economical solutions,



**with the win-win bonus of enhanced
profitability margins for themselves.**



When exercising cost controls, follow basic strategy.

Cost Control Myths

- Design is complete when the architect is finished
- Negotiate A/E fee to save money
- VE is the silver bullet for cost overruns
- Design isn't complete, we'll bid it anyway – and save time
- Get more bidders – someone will be lower
- We want someone with very low general conditions
- Scope creep is free

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Top 5 Causes of Cost Overruns

- Erroneous cost estimates
- Unrealistic budget
- “Fluid” scope (creep isn’t really free)
- Rushed bid documents
- Transfer of risk

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“Library Cost Estimate was Flawed”

February 2002

By PAUL DUNNETTE

The Connection

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Steps to Cost Control

- Stakeholders commitment to cost control
- Assess risk and develop contingencies
- Start with tracking and reporting system
- Develop a stringent QA/AC plan

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Assess Risk

- “Limited Liability” Concept
- Categories:
 - Contractual
 - Construction
- Contingencies

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Disclaimer Clauses

- Uncertainty of work conditions
- Delay events
- Indemnification
- Liquidated damages
- Sufficiency of contract documents



Premium
Cost

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“County negotiating with Baugh for courthouse GC/CM contract”

February 19, 2002
By Annu Mangat
Journal Staff Reporter

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Higher Premiums

- Need for work
- Technical complexity
- Fair contract administration
- Level of document details
- Type of Owner – Contractor relationship

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Hidden Costs

- Restricted competition
- Potential for claims and disputes
- Adverse Owner – Contractor relationship

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QA/QC in Pre-Construction Phase

- Cost models
 - Cost database
 - Adjust for project conditions

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QA/QC in Pre-Construction Phase

- Phased Estimates
 - Contingencies
 - Estimate review
 - Estimate reconciliation

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