Cost Control
Back to the Basics

Pirayeh Long
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 aggressive and innovative program of cost cutting on its P36 production facility.
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onerous quality requirements, and outdated concepts of inspection and client control.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
Top 5 Causes of Cost Overruns

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

February 2002
By PAUL DUNNETTE
The Connection
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
Assess Risk

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

- Uncertainty of work conditions
- Delay events
- Indemnification
- Liquidated damages
- Sufficiency of contract documents
County negotiating with Baugh for courthouse GC/CM contract

February 19, 2002
By Annu Mangat
Journal Staff Reporter
Higher Premiums

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

- Restricted competition
- Potential for claims and disputes
- Adverse Owner – Contractor relationship
QA/QC in Pre-Construction Phase

- Cost models
  - Cost database
  - Adjust for project conditions
QA/QC in Pre-Construction Phase

- Phased Estimates
  - Contingencies
  - Estimate review
  - Estimate reconciliation
When exercising cost controls, follow basic strategy.