

FIDIC Conference Singapore

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Partnering for Profit

Contractors Perspective

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Partnering for Profit – Contractor Perspective

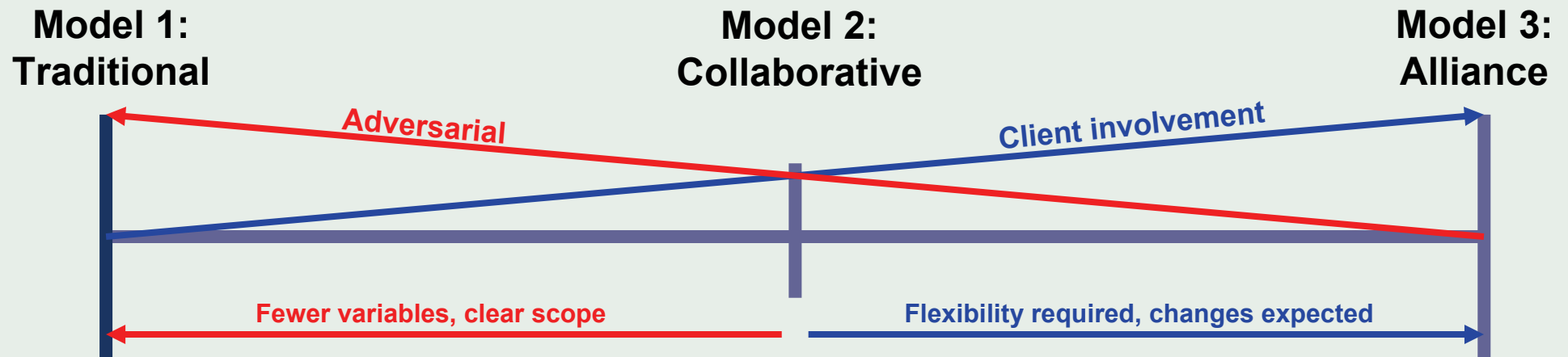
Today's Agenda



- ✓ **Some background on Partnering and Alliance contracting**
- ✓ **The Principles of Alliance Contracting – what gives the Alliance contract life**
- ✓ **The Alliance Commercial Model and implications for Engineering Organisations**
- ✓ **Building a high performance Alliance team**
- ✓ **Australian experience applying Alliance principles to real life projects**

From Hard Dollar Contracting to Alliances

Range of Contracting Options



Suitable when:

- Clear and controlled risks
- Clear scope
- Greenfields / few interfaces
- Few changes expected
- Less collaboration
- Risks allocated

Suitable when:

- Risks are complex and may not be fully known
- Scope requires flexibility
- Brownfields / many interfaces
- Changes expected
- More collaboration
- Risks shared

'Traditional' Approach

Typical client objectives for projects:

- ✓ Lowest cost
- ✓ Maximum functionality and performance
- ✓ Maximum return on asset
- ✓ Flexibility (change technology / scope definition)
- ✓ Minimum schedule duration
- ✓ Risk transfer

Clients adopt tender processes and contracts that drive contractors to:

- ✓ Minimise bids to win
- ✓ Shift risk to owner
- ✓ Seek out weakness in the contract, specific to scope
- ✓ Increase revenue
- ✓ Exploit scope growth, change and delays
- ✓ to maximise profit growth opportunities

Alliance Snapshot



Alliance Principles:

- ✓ Collective responsibility for some or all project risks
- ✓ No contractual walls
- ✓ People selection on a “best for project” basis
- ✓ Commercial model aligning goals of all parties
- ✓ Unanimous decision-making and no dispute

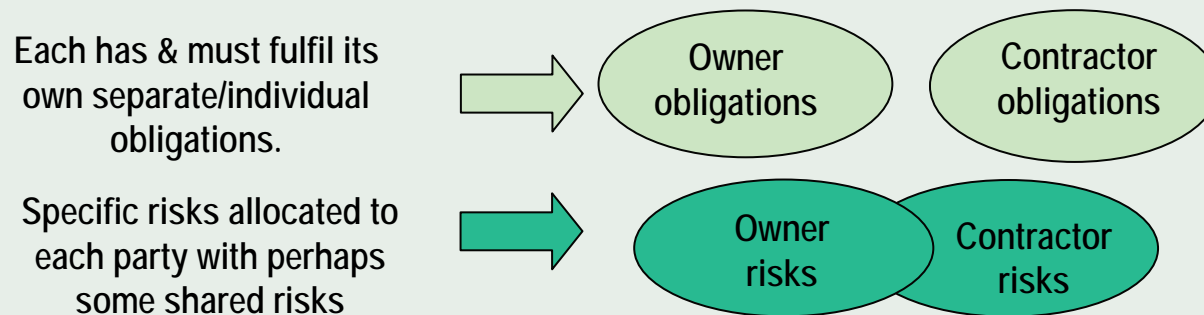


This leads to:

- ✓ Whole project focus, rather than ‘my bit’ – no more “that’s their problem”
- ✓ Integrated teams give a better result
- ✓ Focus on performance rather than contract
- ✓ Single governance structure
- ✓ Essentially a single entity made up of the relevant parts

The Concept of Risk Sharing

TRADITIONAL FORMS OF CONTRACT



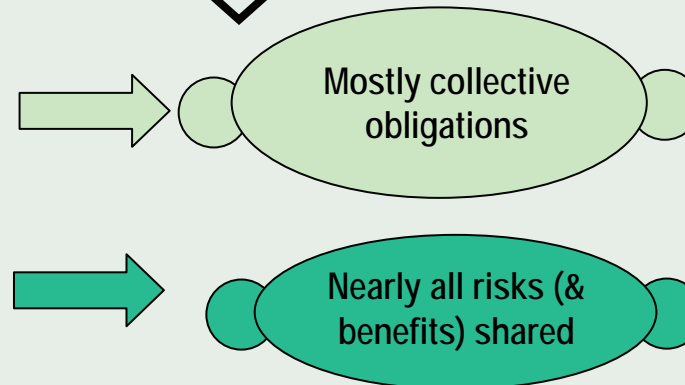
Transfer risk

Fundamental shift in the way risk (and opportunity) is dealt with under the contract.

PROJECT ALLIANCE APPROACH

Nearly all obligations are collective. Some individual obligations (e.g. owner's obligation to pay)

All risks shared. Some risks may be retained by the owner



*Share & Jointly
Manage Risk*

What Differentiates Alliance Contracts?



More than just another form of contract

It is about creating alignment between:

- ✓ All core participants (companies and individuals)
- ✓ Project systems/structures, culture, behaviours and individual commitment



All to achieve outstanding results vs. traditional meet budget and schedule

History of Alliancing in Australia



- ✓ UK North Sea experience – BP Andrew oil field
- ✓ Australian Oil & Gas – Wandoo and East Spar
- ✓ Northside Storage Tunnel – 1st public sector alliance in the world
- ✓ Early Water industry Alliances now followed by range of industries

John Holland's Alliance History



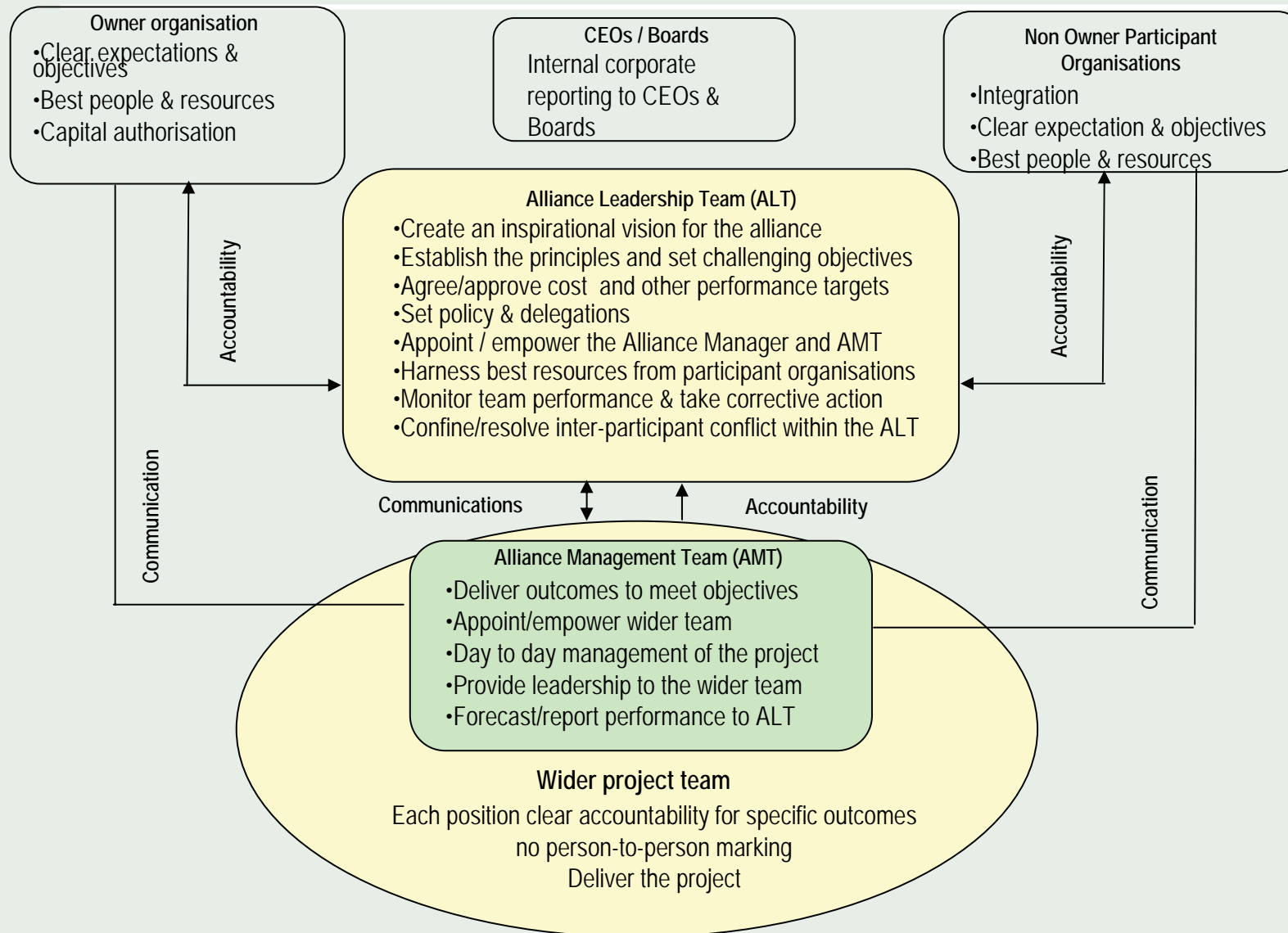
✓ Western Treatment Plant Enviro Improvement (Water)	05/06	\$180M
✓ Subiacco Waste Water Treatment Plant (Wastewater)	04/05	\$80M
✓ Priority Sewerage Program (Wastewater)	05/06/07	\$300M
✓ Merrimac Wastewater Upgrade Alliance (Water)	06/07	\$80M
✓ Brisbane Water Enviro Alliance (Water)	05/06/07	\$250M
✓ Eildon Dam Alliance (Water)	06/07	\$80M
✓ Sunset Coast Water (Water)	06/07	\$160M
✓ South Improvement Alliance (Rail)	06/07/08	\$600M
✓ Gold Coast Desalination Alliance (Water)	06/07	\$1B+
✓ Middleborough Rd (Road/Rail)	06/07	\$65M
✓ Horizon Alliance (Road/Rail)	06/07/08	\$800M
✓ Bell Bay Pulp Mill	06/07	\$1B+

Which projects are suited to Alliancing?



- ✓ High number of unknowns
 - ✓ High degree of complexity
 - ✓ Radical or rapidly developing technology
 - ✓ Short timeframes
 - ✓ Flexibility in timeframe dependant on third parties
 - ✓ Intention to engineer value (delivery innovations)
 - ✓ Need to reduce capital cost to become viable
 - ✓ High risk from stakeholders or external influences
- And increasingly
- ✓ Client capital program v's resources and capability to deliver

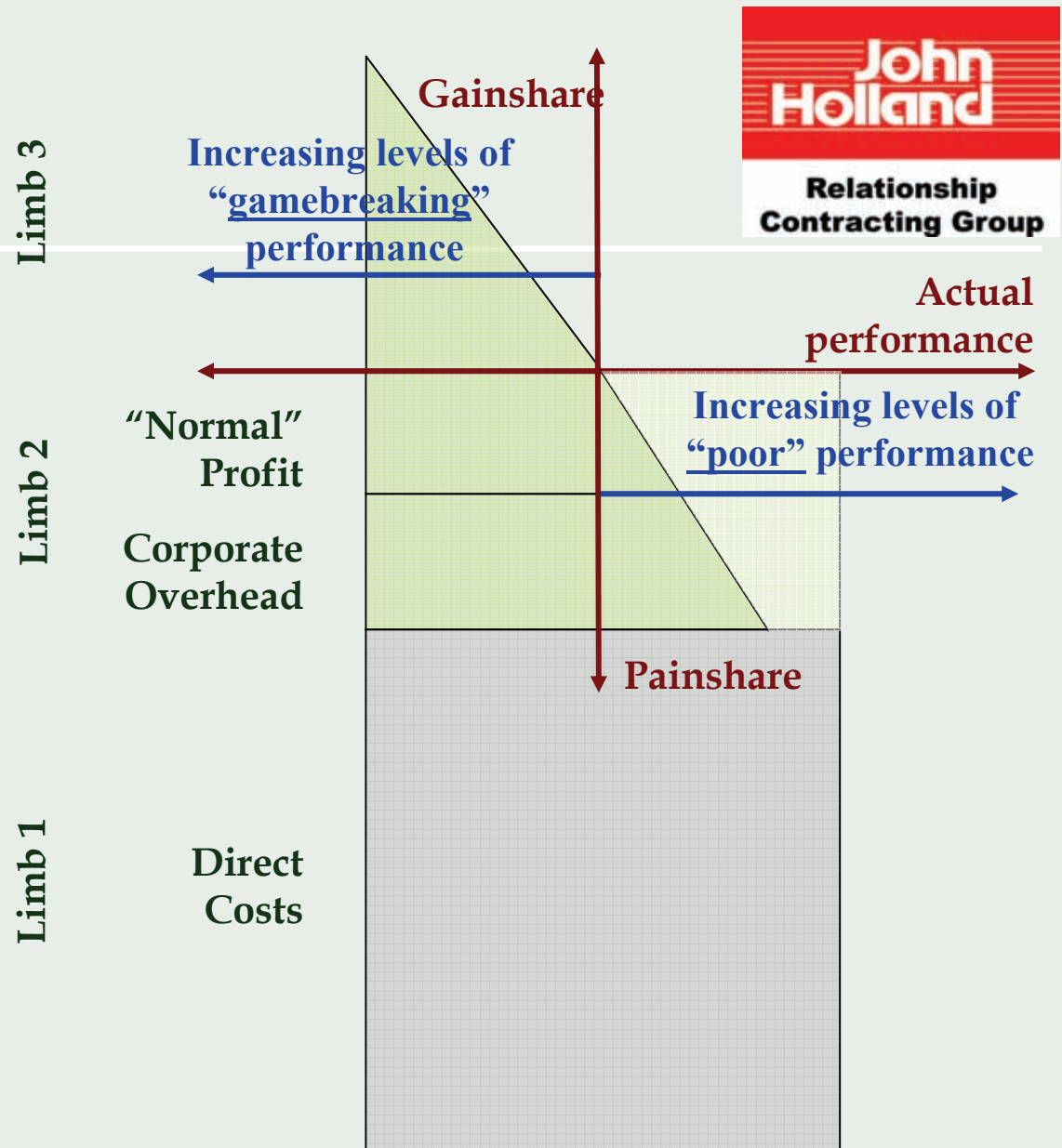
Project Alliance Governance and Management Framework



The Alliance Commercial Model

Commercial Framework

- ✓ Purpose of alliance is to achieve gamebreaking results
- ✓ Exactly TOC and Minimum Conditions of Satisfaction = “disappointment”
- ✓ Opportunity to earn outstanding profits
- ✓ Sponsor carries ultimate burden of risk
- ✓ Transparency in documentation and audit



Commercial Framework Principles of Gainshare



NORMAL PERFORMANCE = NORMAL REWARD

POOR PERFORMANCE = POOR REWARD

OUTSTANDING PERFORMANCE = OUTSTANDING REWARD



Alliance Contracting Gamebreaking Performance



- ✓ Making it happen requires:
 - selecting the right team
 - creating a culture of proactive pursuit of outstanding results
 - creating a culture of alignment between companies and individuals
 - establishing what produces the results – processes, systems, culture, people’s attitude and people’s commitment
 - actions being consistent with commitments
 - people doing what they say they’ll do
- ✓ As compared to managing silos and your own portion of the risks and using paper as the medium for communication and commercial positioning

PEOPLE – PEOPLE – PEOPLE

Overriding Success Factor



Experience shows that by far the biggest success factor in building a high performance team is **LEADERSHIP** that:

- ✓ Has a clear vision of what it wants the alliance to be and achieve;
- ✓ Sets and espouses targets for the team to achieve;
- ✓ Is ruthlessly committed to achieving the above; and
- ✓ has the courage and strength of conviction to do stuff to enroll and commit people and stays with it - even in the face of mistakes, criticism and problems.

A Recent Case Study

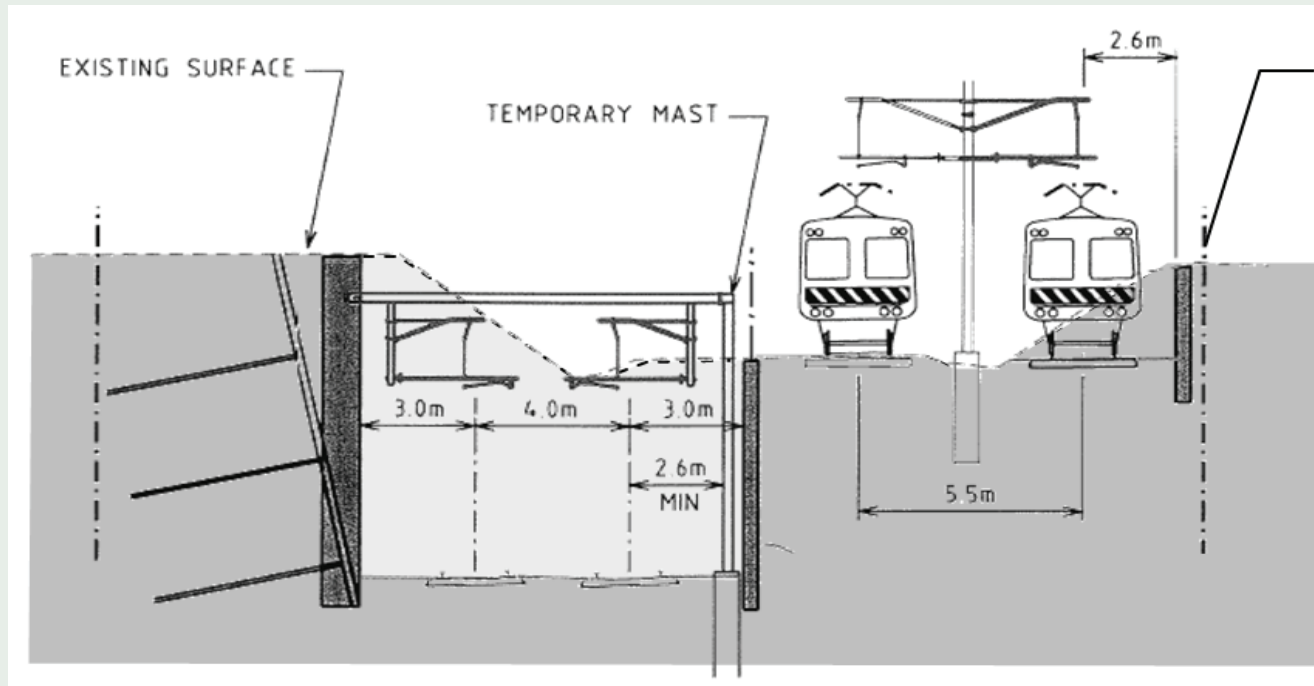


**Middleborough
Road
-
Before
Construction**



**Middleborough
Road
-
After
Construction**

18 MONTH STAGED OCCUPATION APPROACH



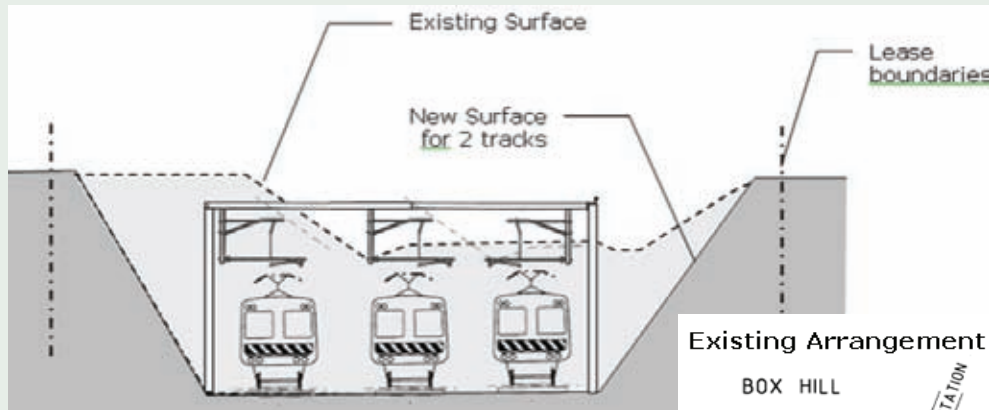
✓ Temporary track, retaining walls, overhead structures

✓ Working close to live rail network

✓ Long term disruption to residents

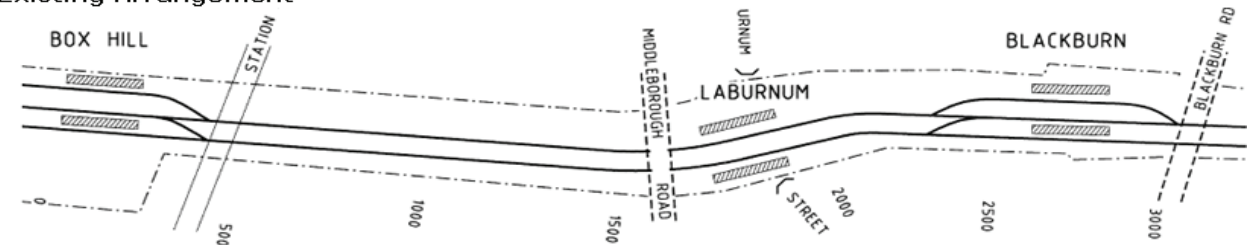
✓ Further stages required for third track

SIX WEEK OCCUPATION APPROACH

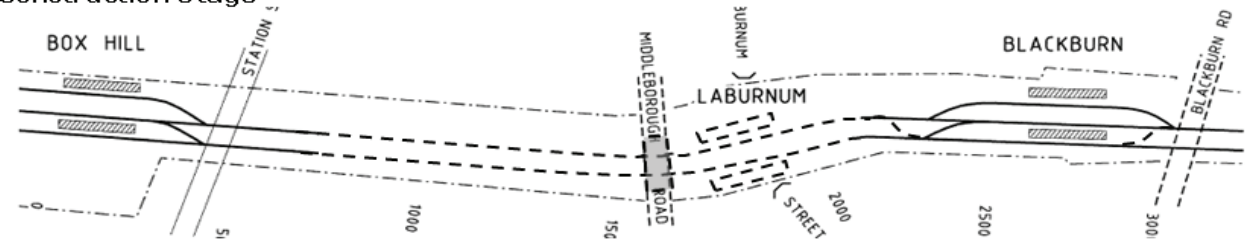


- ✓ Significant reduction of safety risk
- ✓ Reduced time period of impact on the transport network

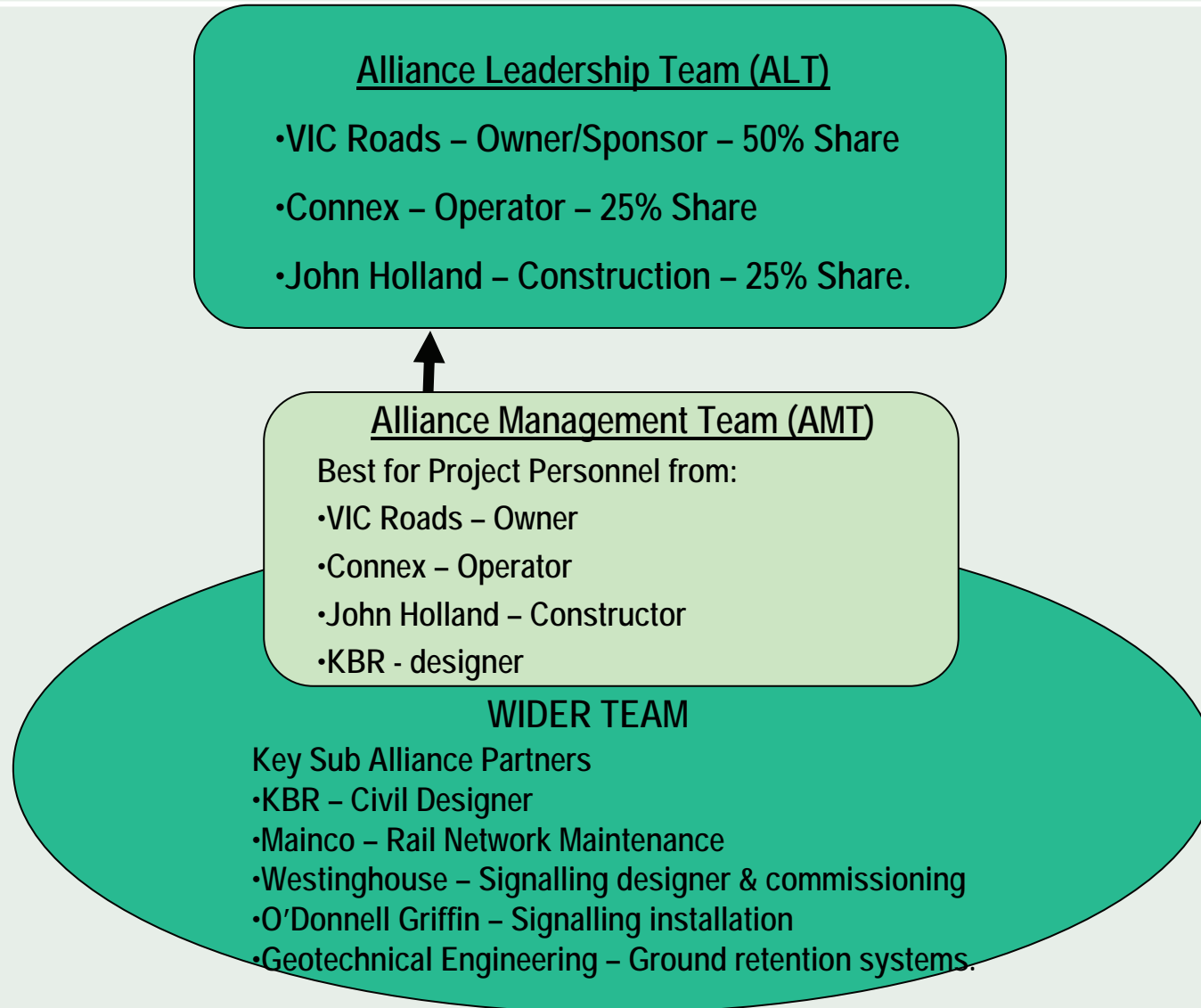
Existing Arrangement



Construction Stage



Alliance Structure



Design Approach



Initial concept, functional and some detail design developed before Alliance formed - then design integrated into Alliance team which started to drive different design outcomes.

Team collaboration on Program and Community issues, Constructability, Maintainability and Operability led to;

- ✓ Changes in the rail alignment and provision for third rail**
- ✓ Extensive prework and piling for retaining walls before the main shutdown allowing road and rail operations during the week**
- ✓ Modular bridge construction allowing weekend piling and no disruption to rail/road services**
- ✓ Redesign of temporary commuter transfer facilities**
- ✓ Noise modelling driving program and management of community interface**
- ✓ Modelling of road, rail and pedestrian movements incorporated into construction program**

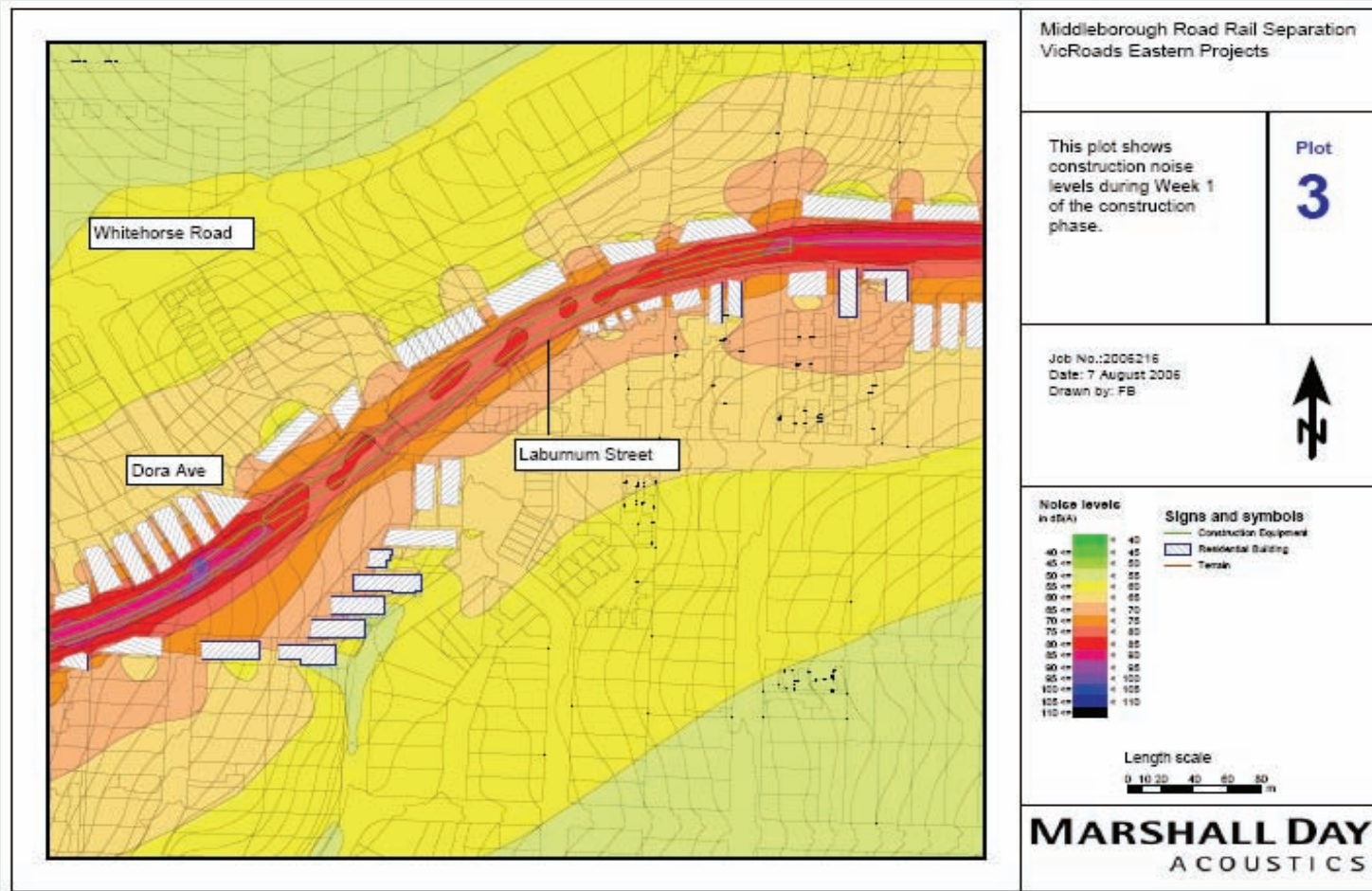
Benefit of Design Integration



One key benefit from contractors perspective:

NO DESIGN DRIVEN DELAYS!!!!

CONSTRUCTION NOISE MODELLING



- ✓ Calibrated during weekend shuts
- ✓ Significant noise level data collected during project

Modular Bridge Components

- ✓ Bridges constructed with modular bridge components
- ✓ Allowed piles and abutments to be constructed over weekend rail and road closures,
- ✓ Temporary works on the platforms and road to avoid impacting passenger services and allow weekday rail and road operations to continue unimpeded.





**Relationship
Contracting Group**



Installation of
abutments





- ✓ Piling to form the footing of the Laburnum Street Bridge and installation of bridge abutments, beams and deck



Achievements

- ✓ In just 27 days:
 - ✓ Rail services returned
 - ✓ Middleborough Road reopened
 - ✓ Laburnum Station operational
- ✓ From Alliance award to design development to construction in a short period of time
- ✓ One track available for transfer of trains after only 17 days
- ✓ No train delays following rail occupations
- ✓ Minimised impact of 24/7 construction on the community
- ✓ Local, Interstate and International interest



Awards:

- Alliance Contracting Excellence 2007
- VicRoads Safety Award
- Earth Excellence Awards in Civil Construction 2007

LEGACY

- ✓ Shift in thinking for VicRoads for delivery of grade separation
- ✓ Improved cooperation with the affected stakeholders
- ✓ Strengthened support for Alliance contract model
- ✓ Local, Interstate and International interest in construction methodologies
- ✓ Industry are able to learn from our experiences – ‘lessons learnt report’
- ✓ Relieved pressure on local road network



- ✓ Improved amenity for nearby residents
- ✓ Integrated transport solution



Thank You