Risk Allocation During Procurement Development

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Focus of Presentation

- Consider various types of Procurement strategies
- Examine stage of Procurement Development
- Discuss elements of Risk Assessment Baseline
- Discuss tools to reduce Risk Uncertainty
- Discuss goals of the Industry Review Process
- Determining Final Risk Allocation

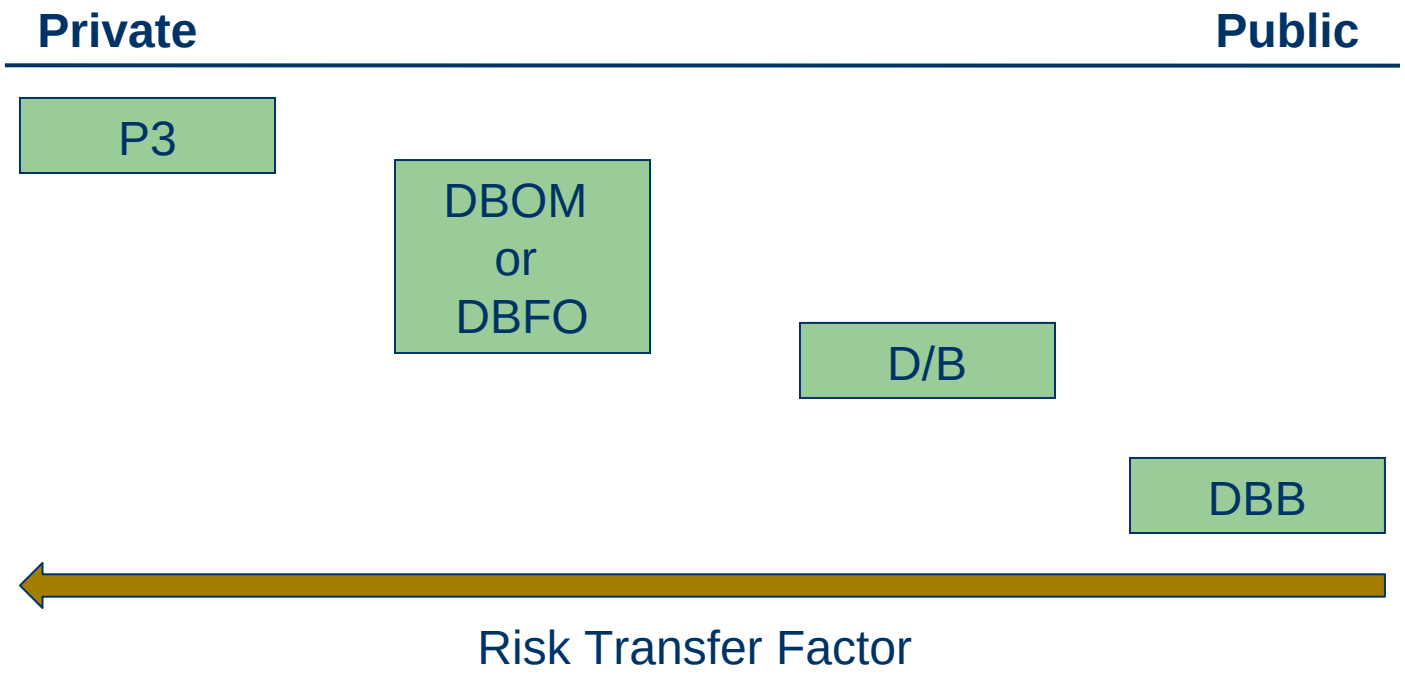
Categorizes of Procurements

- Various Alternative Delivery Methods are currently being used:
  - Design/Build (D/B)
  - Design/Build/Operate & Maintain (DBOM)
  - Design/Build/Finance/Operate (DBFO)
  - Public-Private Partnership (P3)
  - Private Finance Initiative (PFI)

- A common link to success for all types of Procurement can be seen in the Risk Transfer and Allocation approach.

Contracting Types

Risk Transfer is based on the Contracting Type



Stages of Procurement Development – as ongoing Process

- *Initial Risk Assessment*: Owner establishes risk baselines.
- *Industry Feedback*: Conduct 1-on-1 meetings for Bidder feedback to initial assessment.
- *Final Risk Assessment*: Owner evaluates feedback and determines final risk allocation.

Purpose of Initial Risk Benchmarking

- Owner will establish the Initial Risk Baselines based on its goals and objectives for the Project.
- The Risk Baselines will examine the allocation of both Time and Money for each element of Risk.

Risk Identification

- Design
  - Design Criteria
  - Review Process
- Right of Way
  - Obtaining ROW
  - Design Changes
- Geotechnical
  - Differing Site Conditions
  - Hazard Material Issues
- Environmental
  - Obtaining Permits
  - Public Outreach
- Utilities
  - Coordination with Utilities
  - Betterment Issues
- Schedule
  - Liquidated Damages
  - Inflation Factors
- Construction
  - Insurance & Warranties
  - Quality Control & Assurance
- Third Parties
  - Railroad Agreements
  - Municipal Agreements

Risk Assessment

- Probability of risk elements occurring along with potential risk contingency cost.
  - *Define Risk Elements* – Identify which risk elements are to be separately priced.
  - *Identify Type of Risk* – Determine the specific type of risk associated with each element.
  - *Identify Probability Index* – Determine the likelihood of occurrence.
  - *Identify Risk Impact* – Determine the probable cost associated with each specific risk element.
  - *Determine Risk Rating Cost* – Multiply the element's probability factor by the Risk Impact to determine cost associated with the element of risk.

Strive to Reduce Risk Uncertainty

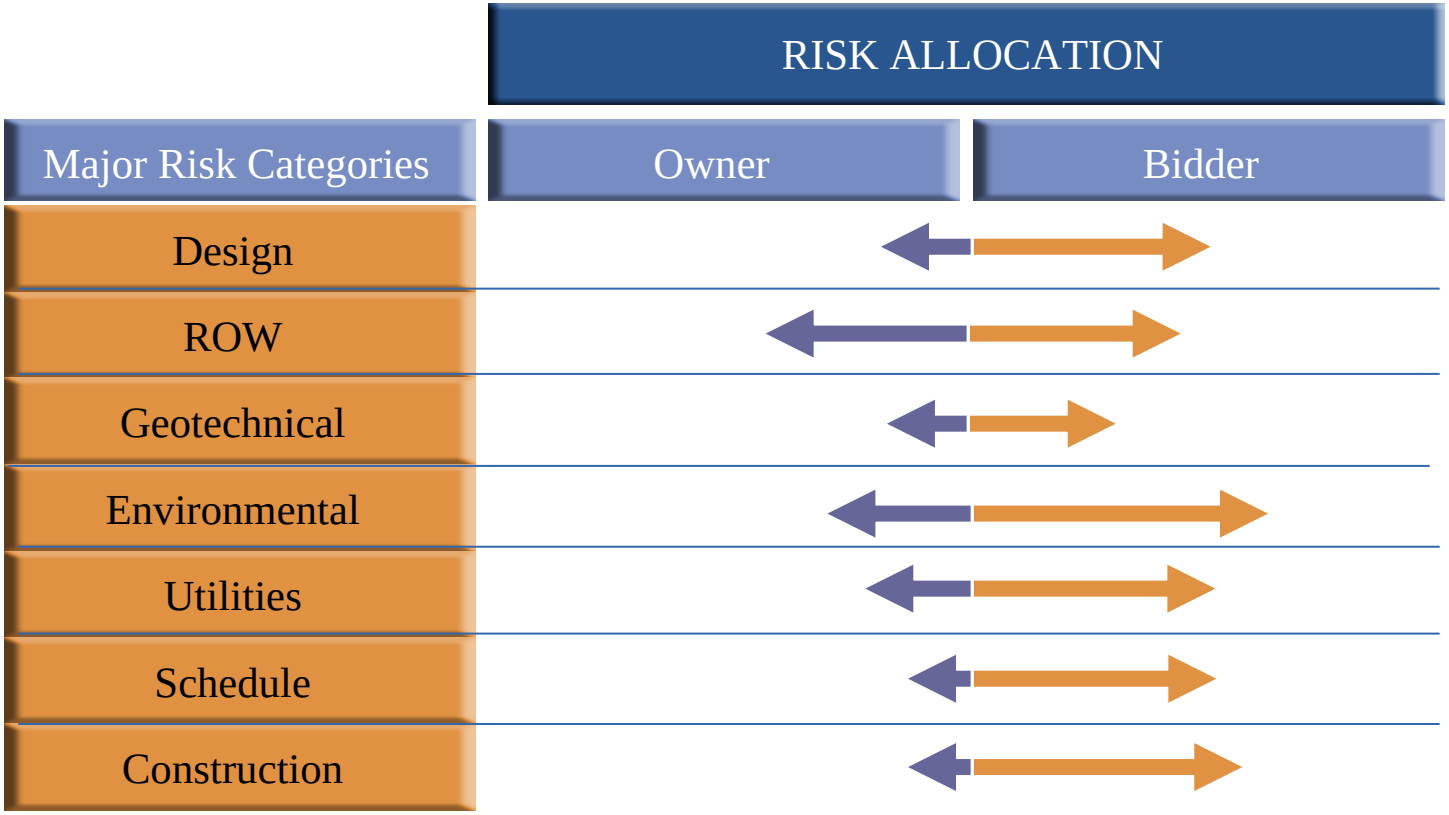
- Owner should provide all available information collected on the project.
  - Geometric Data: establishes a clear configuration of the project.
  - Geotechnical Data: provide a baseline report of existing conditions.
  - Utility Information: provides points of contact for the Bidder.
  - Right-of-Way Information: establishes limits of previous work effort by the Owner.
- This will reduce project uncertainty thereby reducing Bidder Risk.

Industry Feedback

- Hold One-on-One Meeting with Bidder
  - Meetings should be confidential
  - Bidder are provided with draft Procurement Documents
  - Allow sufficient time for Bidder's review
- Owner will then compile summary of Bidder's responses to 1-on-1 meeting
- Based on Bidder's feedback, the Owner can make modifications to the Risk Baselines.

Final Risk Assessment

Risks will be allocated to the party that can best controls them!



Questions

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