

# STRATEGIC PROCUREMENT UNDERPINS EFFECTIVE PROJECT DELIVERY

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**-£60  
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A major European power generator, currently providing power to the national grid in the UK, was in the process of procuring a contractor to deliver a major new Combined Cycle Power Plant. However, the UK market for power construction was overheated, resulting in fewer contractors being prepared to submit prices for erecting the new power stations.

Contractors were concerned with the balance of risk in traditional lump sum power station erection contract documents. Market research also confirmed that many contracting companies did not believe that current power station contract terms allowed an equitable share of the risks.

EC Harris was appointed to provide procurement advice and to devise a procurement strategy that would balance risk more fairly between the client and contractor. This was to protect the client against spiralling budgets and also allow the contractor scope to reach an equitable agreement on time and cost.

## Creating solutions

EC Harris considered a number of options for the procurement strategy, moving away from the standard tendering procedure and avoiding simple Lump Sum Turnkey Contracts which the market would not sustain.

*“To determine the optimum procurement strategy EC Harris considered the whole lifecycle of the built asset to ensure the method adopted provided the client with the ultimate long-term outcome.”*

EC Harris also found that the client had a number of concerns which needed to be addressed before they could embark on the construction process. These challenges included incomplete design of the works, the procurement of major plant was not finalised and the client still required cost security.

To determine the optimum procurement strategy EC Harris considered the whole life cycle of the built asset to ensure the method adopted provided the client with the ultimate long-term outcome. Often the temptation is to select the perceived lowest cost solution, which over the lifecycle of the project can potentially be more costly in both real and environmental terms.

The procurement route decided upon was a Reimbursable Target Cost contract, priced by the tenderers on the basis of the NEC 3 Standard Form Contract, Option C.

### Adding value

EC Harris designed a procurement strategy that led to contract terms that satisfied the client's and the contractor's needs. This enabled the procurement of the new Combined Cycle Power Plant to proceed. The solution delivered significantly increased the tendering pool and ensured a broader range of tenders were received. This provided the client with a competitive environment and as a result they successfully appointed a contractor.

As a direct result of the EC Harris tender appraisal the second highest bidder reduced their price substantially, by over £60 million. This ensured that the difference between the two lowest tenders was only around 1%, allowing the client to choose the successful contractor on the basis of quality and performance.

By involving EC Harris in the early stages of the project the client has found that the best lifecycle cost also provides the best build cost. Quite often there is a qualitative decision to be made as to whether capital expenditure costs today should be sacrificed for future operational savings. This decision could only be made by the client once fully informed on the lifecycle cost options.

The project is now underway and EC Harris is working with the client to deliver the Combined Cycle Power Plant within budget providing project controls, project costing and commercial management.

### Contact

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