



**BWEA 30**

# **Construction Phase Procurement – Risk**

**Paul McQuillan**

BWEA - Offshore Wind Delivery Group  
and  
Pinsent Masons



# Introduction

- Construction phase risks
- Perspectives
- Procurement approaches
- Supply chain feedback
- BWEA OWDG thoughts
- Risk Schedule
- Conclusion

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# Construction Phase Risk

- Identification of risks and clarity in allocation of risks are fundamental
  - To the funding of a project
  - To secure value for money from the supply chain
- Construction phase carries particular risks. Examples:
  - Price escalation and currency fluctuation
  - Performance of plant (e.g. power curve and availability)
  - Design, and design information
  - Ground and sea bed condition, physical obstructions (and unexploded ordinance)
  - Interfaces re design and programme
  - Availability of labour
  - Vessel availability and weather delays

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# Perspectives and Procurement Approaches

- Perspectives
  - Developers'/Owners' perspective – a wind farm:
    - meets consents and the performance criteria
    - delivered on time, to budget and safely
  - Funders' perspective – avoid delay or interruption to cash flow
  - Supply chain perspective
    - Understand obligations and liabilities
    - Exclusions and limits on liability
    - Inform pricing
- Procurement approaches
  - Turnkey/EPC approach
  - Limited multi contract approach
  - Multi contract Separate packages with risk sharing
  - Reality may be a mixture

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# Feedback

- Common denominator – fundamental need to identify risks and allocate clearly
- Difficulties
  - Difficult to understand proposed risk profile
  - Lack of transparency and clarity leads to
    - Less than collaborative relationships
    - Lack of supply chain engagement
    - Responsibility falling between stools
    - Unnecessary cost
      - Duplication of contingencies
      - Cost of bidding
    - Excessive qualifications and attempts to limit liability
    - 11<sup>th</sup> hour deal breakers



# Identification and allocation of risk – Risk Schedule

- BWEA OWDG concluded useful to have a means of
  - Identifying risks - checklist of more common risks
  - Presentation of proposed risk profile/planned allocation of risks
  - Facilitating the management of risk
- Features
  - Checklist of common risks
  - Provides brief comments on the risks
  - Provides a column for the users to allocate the risks as between the parties involved
  - Not intended to
    - be exhaustive
    - prescribe how risks should be allocated or managed, or
    - recommend best practice in risk management



## OFFSHORE WIND FARM DEVELOPMENT - CONSTRUCTION PHASE

### RISK SCHEDULE

#### INTRODUCTION

This Risk Schedule sets out common risks encountered during the construction phase of the development of an offshore wind farm. The Risk Schedule lists the risks, provides brief comments in relation to each risk and provides a column for the users of the Schedule to allocate the risk as between the parties involved in the development.

It is not intended (1) to be exhaustive, (2) to prescribe how risks should be allocated or managed, or (3) recommend best practice in risk management.

It is intended to assist in:

- Identifying risks – The Schedule provides a checklist of more common risks to be considered. There will always be other risks dependent on the nature and commercial arrangements of the particular project and dependant on what is of particular importance to the participants
- Presenting risk profile/proposed allocation of risks – The Schedule may be used as a shorthand, graphic summary of the project risk profile/allocation of the fundamental risks of the project: (1) without the need for fully worked up contractual terms and conditions, and (2) in a logical consistent, transparent (and if widely adopted) in a standard form. Such a form of presentation may be useful for communication:
  - with developers' own senior management, potential funders and investors, and with insurers, and
  - with supply chain/bidders
- Facilitate the management of risk - The Schedule may provide a useful structure to the analysis of risk to facilitate the efficient management of risks (including avoiding duplication of contingencies).

No	Construction Risk	Phase	Comments	Allocation of Risk
1.	Obtaining construction/installation and regulatory type consents		Consider responsibility for obtaining: <ul style="list-style-type: none"> <li>• regulatory type consents</li> <li>• construction/installation type consents</li> </ul> Comment: <ul style="list-style-type: none"> <li>• consultation with the supply chain prior to submission of applications for consents may result in more practicable consent conditions</li> <li>• clarity of (1) which consents have been obtained, (2) which are outstanding, and (3) who is to obtain further consents, may assist the process</li> </ul>	
2.	Compliance with consent conditions		Consider responsibility for compliance with consent conditions.                     Consider: <ul style="list-style-type: none"> <li>• clear understanding of conditions attached to consents</li> <li>• providing details of consents required but not yet obtained (including prospective conditions) may assist bidder</li> <li>• providing relevant extracts of lengthy existing consents to bidders</li> </ul>	



# Project X - Risk Profile (2)

Ref	Construction Phase Risk	Comment	Risk Allocation
7.	Ground and sea bed conditions	<p>Contractor to take the risk of ground conditions associated with the onshore works</p> <p>Owner to take the risk of sea bed conditions being different to the "Sea Bed Data" (as defined below)</p>	O and C
8.	Ground and sea bed conditions information	Owner to warrant the accuracy but not sufficiency of the Sea Bed Data, but no other information relating to ground or sea bed conditions	O and C
9.	Sea bed cable works maintenance	Contractor to take the risk of design of depth of cable burial and of cable becoming exposed, during the Warranty Period	
10.	Physical obstructions/contamination	Contractor to take the risk of time or cost caused by physical obstructions including unexploded ordinances, marine archaeology, pipelines, cables and pipes on the sea bed	C
11.	Vessel availability	Owner to make available for the Contractor's use the installation vessel and associated equipment and crew prescribed in Appendix XX during the periods stated [waiting on weather...]	O



# Benefits

- May assist with comprehensive analysis of risk
- Presentation of risk profile
  - clear presentation
  - summary of risk profile can be communicated quickly and effectively e.g. to
    - Owner's own team
    - Investors, funders and insurers
    - Supply chain (or with bid)
- Promotes collaboration and supply chain engagement
- Avoidance of duplication of contingencies
- Deal breaker issues flushed out early
- More time to spend discussing/managing the actual risk
- Assists with negotiation in confidence of high degree of understanding of the essential ingredients of the bargain
- Short step to enshrine the principles agreed into writing

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# Conclusion

- Better identification and clarity in planned allocation of risk
  - Assist management of risk
  - Important to funding of projects
  - Important to secure value for money
- The Risk Schedule may assist
- Please have a look and send us your comments

**THANK YOU**

**Paul McQuillan**

**Paul.mcquillan@pinsentmasons.com**

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