
PROPOSAL AND EXECUTION OF CONTRACTS IN THE "Alliance" MODE. IMPLEMENTATION TO THE DESALINATION PLANT AT BINNINGUP, WESTERN AUSTRALIA.

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1. WHAT IS AN ALLIANCE?

Alliance contracting is delivering major capital assets, where a public sector agency (The Owner) works collaboratory with private sector parties (Non-Owner participants or NOPs). All Participants are required to work together in good faith, acting with integrity and making best-for–project decisions. Working as an integrated, collaborative team, they make unanimous decisions on all key project delivery issues. The alliance structure capitalises on relationships between the Participants, removes organisational barriers, and encourages effective integration with the Owner.

2. BASIC PRINCIPLES

- Decisions have to be taken with the basic principle of "Best for Project " regardless if you may benefit more or less to the alliance partners individually.
- There is an open and transparent approach to any negotiation.
- The Alliance is governed by a culture of "Not Guilty" with clear responsibilities according to the functions, solution-oriented management and Alliance Leadership Team (ALT) accepting all the responsibility for the project results.
- "Win / win" or "lose / lose" are the only accepted results in the negotiations.
- The Alliance operates as if it owned the infrastructure.

3. ELECTION OF THE COMPANY OR PARTNERSHIP THAT WILL FORM THE ALLIANCE

- 3.1 **Invitation** sent through an RFP (Request for Proposal). Companies submit an EOI (Expression of Interest) including the requested information. A round of selection is opened, including a presentation by core team nominated in the EOI, visits to key references of similar projects and interviews with the nominated team. The assessment is done by a Committee with the criteria that will be discussed later.
- 3.2 **ADA Stage.** 2-3 companies are selected through the above mentioned process, who will develop ADA Stage (Alliance Development Agreement). It lasts between 4 and 6 months, and it's when the Basic Engineering Project is performed. At this stage, the customer is part of the team running the jobs. There are monthly assessments through presentations of results in all areas.

3.3 Target Cost. At the end of the ADA stage, a document is prepared, including basic engineering project, the outlines of the implementation strategy and outsourcing, and the open detailed budget that will form the TOC (Target Outturn Cost).

3.4 Margin: It´s a fixed amount, calculated as a percentage of the cost Project objective.

3.5 Risks: During the ADA Stage, risks that are susceptible to vary the final goal of the project cost are identified, taking into account that:

- The risks (losses) and opportunities (gains) are equally shared by the partners of the Alliance (EPC contractor and Client).
- The maximum value of the payable risk can not exceed the 100% margin and is unique, with no maximum in cost subcategories.

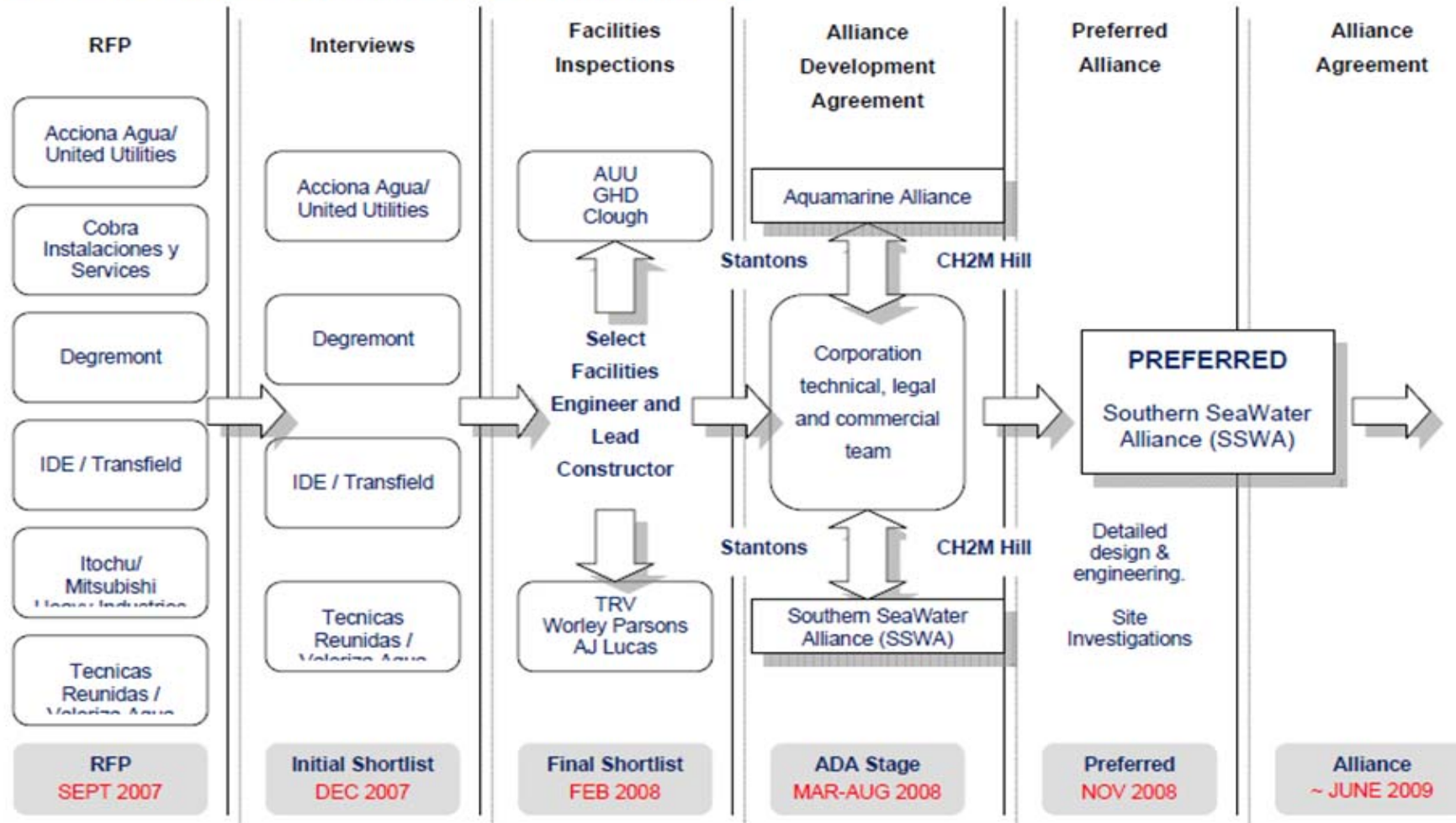
4. SOUTHERN SEAWATER DESALINATION PROJECT

It has been implemented in Binninup (Western Australia) by Tecnicas Reunidas and Valoriza Agua, in a joint venture with two local companies, AJ Lucas and Worley Parson. Such joint venture was chosen as "Favorite Partnership" for the design, construction, commissioning and operation of a 50 Million m³ / year desalination plant with an estimated budget of 650 M AUD, in Partnership with the Customer, Water Corporation. The diagram in Figure below shows the pre-implementation phase, as well as the timing of the different phases.

This same alliance was chosen for expansion to 100 million m³ / year, in August 2011.

There is a legal nuance between the entity implementing the project (JV, without the Customer) and the implementation vehicle that is the Alliance means.

Southern Seawater Desalination Project Alliancing Strategy



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*Legal entity. Reflects commercial / corporate relationship among the four participants not including the owner of the infrastructure
Is the signing entity for all orders and subcontracts*

*Name assigned to the performance of the contract vehicle.
Determines the relationship between the JV and the client (Water Corporation)*

5. SELECTION CRITERIA FOR THE STAGES RFP AND ADA

5.1 Selection Criteria for the RFP Stage

a) Mandatory Criteria

- Confirm understanding of terms and conditions of Initial Proposal
- Demonstrate financial capability through guarantees of each of the Members
- Accreditation by each Member of its Management System, according to ISO9001-2008
- Demonstrate Corporation contractor HSE Prequalification
- Attach safety statistics of the past three years
- Provide details of four references, one of them Alliance type
- Approval of Commercial Framework
- Approval of the ADA Stage draft, and of the Alliance Agreement draft

b) Evaluation Criteria

- Demonstrate capability and experience in plant desalination
- Demonstrate project management and design management experience and capability
- Demonstrate experience and capability in carrying out the design of projects of a similar nature in size and complexity
- Demonstrate organizational experience and track record in the construction of similar projects
- Demonstrate capability and experience in working with the Alliance contract delivery model
- Demonstrate that the proposed Alliance key personnel are capable and have the necessary skills and experience to deliver the requirements of the Project
- Procurement process details supply
- Proposed Margin relative details supply

5.2 Selection criteria for ADA Stage

a) Commercial and Contractual Criteria

- Budget Development TOC (Target Cost), including scope, risks, contingencies and subcontractor relationship
- Operational costs for the entire life of the plan
- Acceptance of the terms of trade

b) Financial

- Audited demonstration of financial capacity

c) Other selection criteria

- Review of engineering reports and design
- Construction Methodology
- Management Plan of the Alliance
- Acceptance of local conditions
- Establishment of the "Joint Venture"

6. CONTRACT MODELS

In the Binningup desalination plant Alliance, direct costs include the direct costs of staff assigned to each of the components of the alliance. The contract does not allow in principle that a component can execute a project and get himself a margin for it, so that the components of the alliance, instead of running around the project in a exclusive way, they follow an outsourcing model that manages a team formed with members of the various entities that comprise it.

The two models available are:

-Pure Outsourcing. In which the subcontractor provides a fixed price or a "Price List"

-Sub Alliances. For key packages as electromechanical or electric erections. A price is agreed with a fixed margin, and savings / overruns are shared 50% with stop loss in the margin.

The model chosen in desalination has been the pure outsourcing, due to past customer experience, not very satisfactory with sub alliances

7. CONCLUSIONS

- 1 The type of tender in the form of Alliance, limits risk and low reckless.
- 2 Unanimous decisions slow down project dynamics.
- 3 Not having margin makes it difficult to assign privatives to the companies, and therefore limits the ability to generate workload.

8. REFERENCES

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TECNICAS REUNIDAS

