



Technical

7 Secrets to Successfully Quoting Compensation Events Under the NEC Forms of Contract - Part Two

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Risks – cost and time risk allowances (4)

1. Because NEC quotations for both cost and time ought to be prospective there is a real danger from the Contractors perspective of quoting a figure lower than what may become the retrospective actual cost or time. Under NEC there is no standard method for reviewing a compensation event after the event, you get one shot at estimating the correct figure. That said the risk of the cost is shared to varying degrees under Options B, C, D and E with the Contractor taking all of the risk under Option A.
2. To assist the Contractor there is a mechanism which allows the Contractor to include cost and time risk allowances within quotations. However Project Managers are unlikely to accept these allowances without the opportunity to re-assess whether they actually occur. The mechanism for doing so is the Project Managers ability to correct an assumption which he has stated about a compensation event.

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3. Time risk allowances should probably be shown separately in the programme unless clearly stated elsewhere to be included in a particular activity.

Estimating costs vs actual cost to date of request for quotation (5)

4. Although the principles of NEC are prospective the contract recognises that work may have been done between the point at which the Project Manager provided an instruction to proceed and the point at which the Contractor provides a quotation. Within the compensation event assessment mechanism this distinction is drawn such that the assessment is made using the actual Defined Cost of the work already done to the point at which the Project Manager did or should have instructed the quotation and using forecast Defined Cost after that point.
5. All costs are subject to the addition of the Fee.

Timescales within the quotation process (6)

6. The timescales for the quotation process are such that by the time a quotation becomes accepted the events on site have changed and the cost, or time implications, of the event have changed. This is particularly the case if the Project Manager fails to follow his obligations. It is therefore essential to consider cost and time risk allowances and the use of assumptions with the quotation.
7. Should the Contractor fail to meet the timescales or fail to provide a programme with its quotation then the Project Manager can make his own assessment of cost and time. Clearly this would usually not be to the benefit of the Contractor!
8. Should the Project Manager fail to meet the timescales then a Contractor's quotation may become accepted by default but only if the Contractor has met certain conditions itself.

Suppositions – use of assumptions (7)

9. As previously stated the Project Manager can correct an assumption which he has stated about a compensation event. This correction is in itself a compensation event.
10. The assumption would usually relate to cost and time risk allowances made by the Contractor. However it is not necessarily the case that an assumption stated by the Contractor in a quotation automatically becomes a Project Manager's assumption when the compensation event is implemented. It is therefore essential to obtain the agreement of the incorporation of the assumptions into the compensation event and to have the Project Manager state that that is the case within his implementation.

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