ALIGNED INCENTIVES AND CONTRACTUAL DRIVERS

Recommended best practices

OFFSHORE NORGE

Norsk Industri

EXECUTIVE SUMMARY

WE WILL CREATE SUCCESS WORKING TOGETHER TOWARDS COMMON GOALS

Creating common goals between the participants in projects and portfolios

- Sharing risk and gain in simple and understandable incentive models
- Tying incentives to the ultimate end goal of the project, e.g., represented by execution cost

TOGETHER WITH

A new way of working together between operator, contractor and selected key suppliers

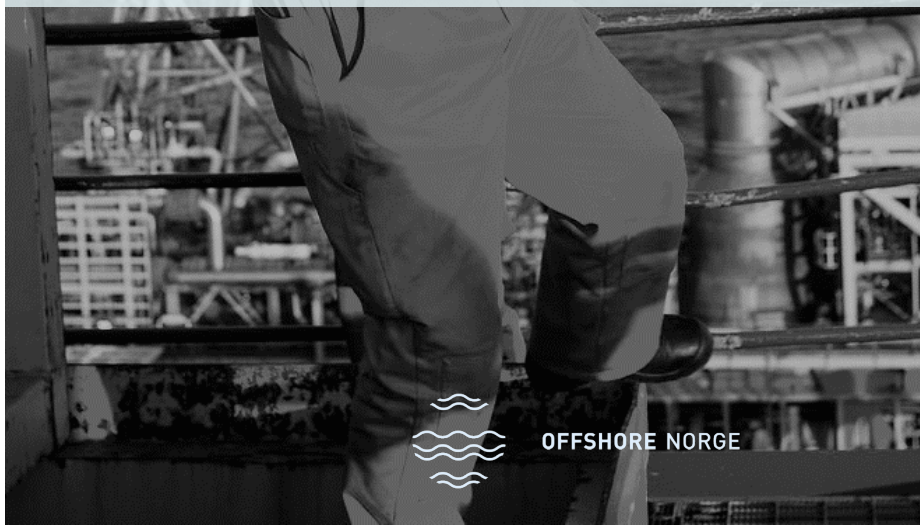
- Following principles from Guideline for Standardised Supply Chain Behaviour
- Building a shared culture based on agreed principles and formal structures and collaborate based on “One team” approach

WILL ENABLE:

Significant cost reduction and increased competitiveness on NCS

–

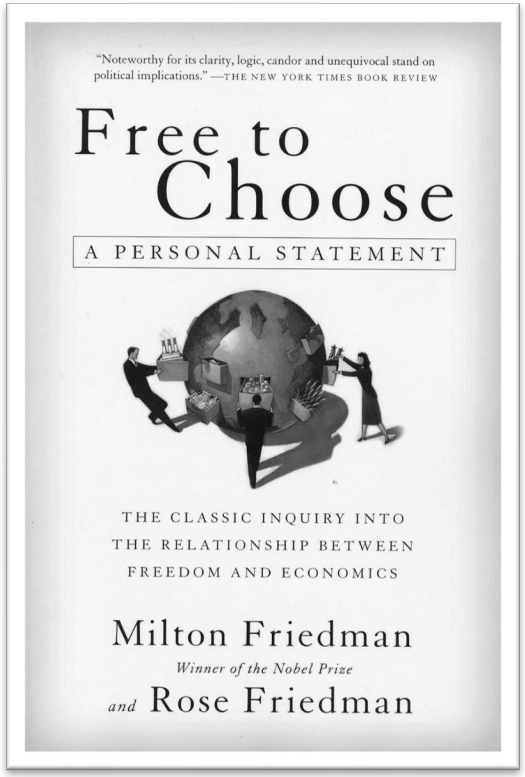
to the benefit of all parties



Norsk Industri

OFFSHORE NORGE

THE GOAL IS TO INCENTIVIZE EACH PLAYER TO SEEK THE HIGHEST VALUE AT THE LOWEST POSSIBLE COST FOR A PROJECT OR PORTFOLIO



The starting point is that everyone is spending other people's money

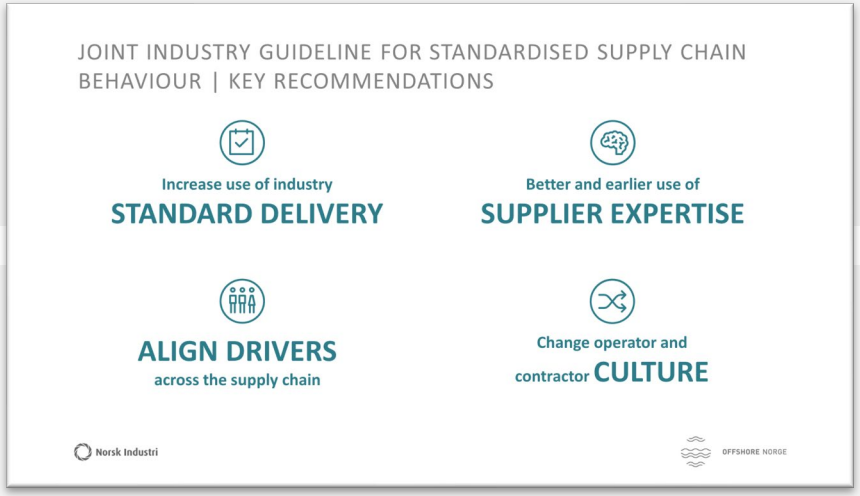
HOW DO WE MOVE EVERYONE HERE?

The Four Ways Money Can Be Spent - Milton and Rose Friedman	… On yourself	… On someone else
You spend your own money…	Economize and seek highest value $ ☺	Economize but don't / can't seek highest value $ ☹
You spend someone else's money…	Don't economize but seek highest value $$ ☺	Don't economize and don't / can't seek highest value $$ ☹

NEW WAYS OF WORKING WILL IMPROVE EFFICIENCY AND REMOVE WASTE IN PROJECTS AND PORTFOLIOS

Recommendations are an extension of Joint Industry Guideline for Standardised Supply Chain Behaviour

- This implies a different model than the traditional project approach seen on the Norwegian Continental Shelf (NCS)
- Feedback from the industry implies major improvement potential in aligning drivers across the supply chain
- Read more about the Joint Industry Guideline (insert link)

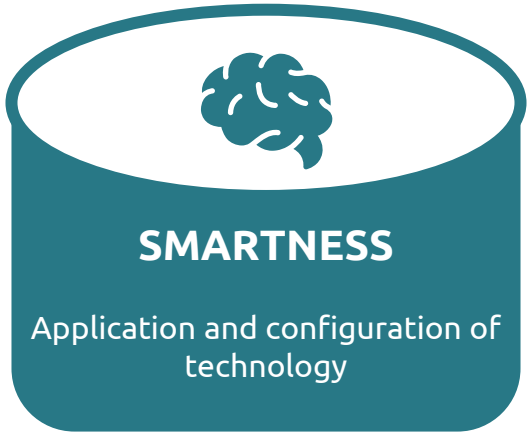


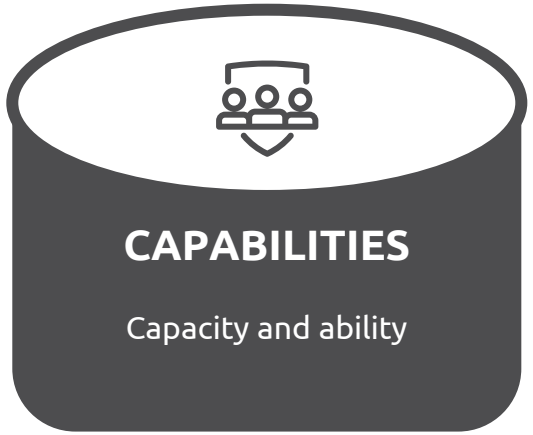
Waste exists in the supply chains – if removed, there is a potential benefit for all parties

- Common incentives drive a one team approach - improving cost efficiency and execution time
- Integrated teams reduce administration and control (e.g., of contracts), as well as duplication of roles in projects and portfolios

A NEW WAY OF WORKING LEADS TO A NEW WAY OF COMPETING

Competitions should, to a larger extent, be focused on...





To reach the benefits of new ways of working, competitions should be conducted early, in frame agreements, or before DG2* and have options in place with agreed commercial terms for Execution (after DG3*).

*Decision gate

THE RECOMMENDATIONS IN THIS DOCUMENT IS INTENDED TO HAVE RELEVANCE FOR ALL TYPES OF PROJECTS AND M&M* FRAME AGREEMENTS

AGREEMENT TYPES

Independent projects, as well as project portfolios executed within long-term collaborative agreements

AREA FOR RECOMMENDATIONS

Multidiscipline scope within M&M portfolios, brownfield, greenfield and subsea projects

INVOLVED PLAYERS

The described incentive models include operator, contractor and, when relevant, key suppliers of particular importance for the given scope**

**maintenance and modification*

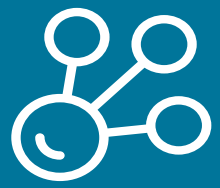
***Supplier with significant impact on the value add to the total scope (e.g system/layout design), using competence to optimise and enable smart integration. Key supplier is defined by project management individually for each project scope.*

TABLE OF CONTENTS

THE DOCUMENT IS STRUCTURED IN RECOMMENDED BEST PRACTICES WITH BASIS IN SOME KEY PRINCIPLES

The **WHY**

1. Why should we have shared incentives?



2. What defines effective incentives?

The **WHAT**

4. What incentivizes each player in each period?

5. Which elements should be the basis for shared incentives?

The **HOW**

6. How do we design incentive models?

3. How do we build a culture that drives collaboration and trust?

The **FOUNDATION**

BASIS FOR RECOMMENDATIONS

RECOMMENDED PRACTICE IN PROJECTS AND PORTFOLIOS

Norsk Industri

OFFSHORE NORGE

TABLE OF CONTENTS

1. WHY SHOULD WE HAVE SHARED INCENTIVES?

1. Why should we have shared incentives?

2. What defines effective incentives?

4. What incentivizes each player in each period?

5. Which elements should be the basis for shared incentives?

6. How do we design incentive models?

3. How do we build a culture that drives collaboration and trust?

Norsk Industri

OFFSHORE NORGE

RISK AND VALUE IS THE MAIN DRIVER FOR ALL PARTIES – WE NEED COMMON GOALS TO REFLECT THIS IN PROJECTS & PORTFOLIOS

INDUSTRY

- **INCREASED COMPETITIVENESS** and extended lifetime of the Norwegian Continental Shelf
  - Tackling increased unit costs and more marginal fields
- **IMPROVED SAFETY AND SUSTAINABILITY**

PROJECT & PORTFOLIO

- **SHARED GOALS STIMULATING EFFICIENT EXECUTION** and value creation for the overall business case
  - Goal: substantially reduced execution time with >20% overall cost reduction from current level
- **SUCCEED WITH STANDARDIZATION AND EARLY INVOLVEMENT** of supplier expertise*
- **EFFICIENT RISK REGULATION:** place risk where it best can be mitigated and share risk were beneficial

PLAYERS

- **SUSTAINABLE MARGINS** for all parties
- **FAIR REWARD** for effort and value
- **MANAGEABLE RISK** and increased predictability

As described in Joint Industry Guideline for Standardised Supply Chain Behaviour

TABLE OF CONTENTS

2. WHAT DEFINES EFFECTIVE INCENTIVES?

1. Why should we have shared incentives?

2. What defines effective incentives?

4. What incentivizes each player in each period?

5. Which elements **should be the basis** for shared incentives?

6. How do we design incentive models?

3. **How do we build a culture** that drives collaboration and trust?

Norsk Industri

OFFSHORE NORGE

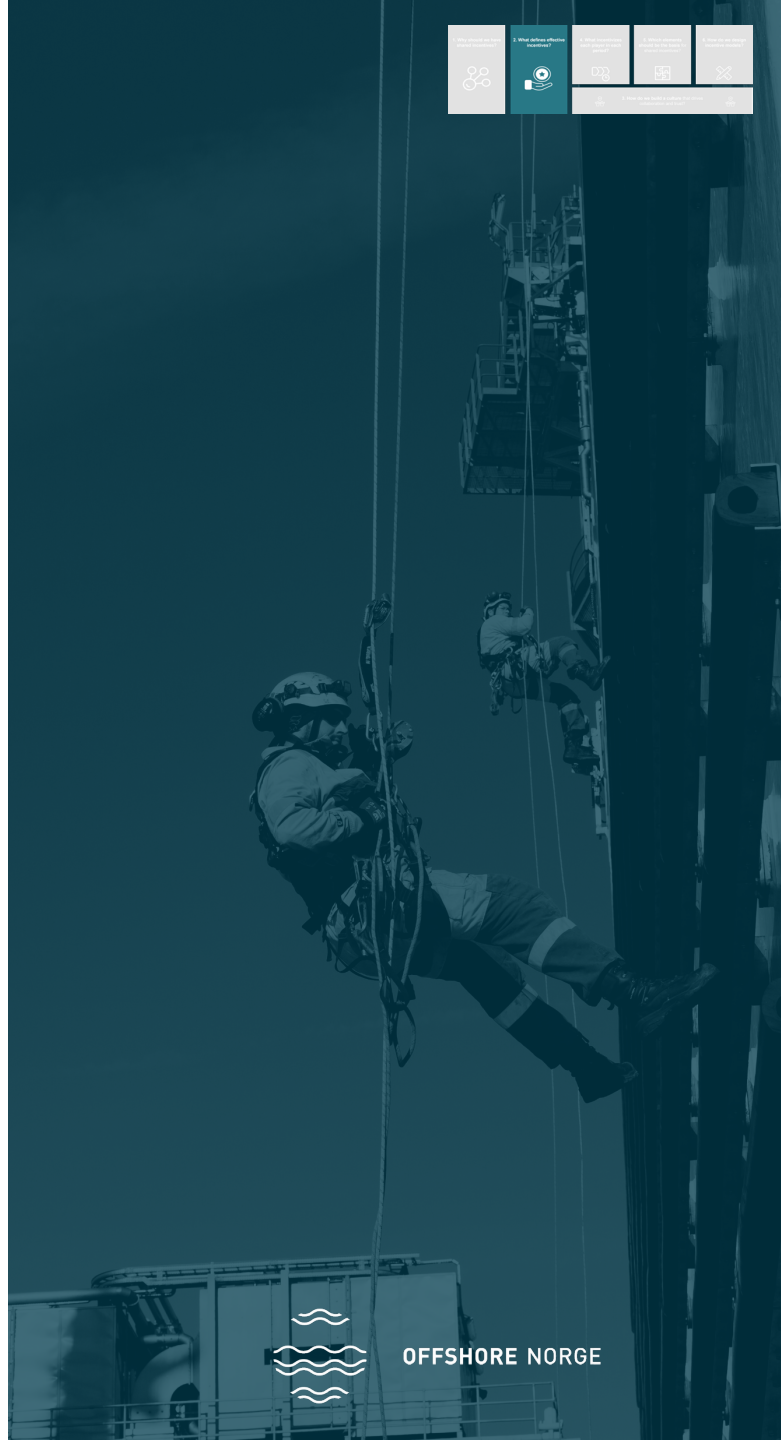
PRINCIPLES DEFINING GOOD INCENTIVES

RECOMMENDATIONS IN THIS DOCUMENT IS BUILT ON THE FOLLOWING PRINCIPLES

INCENTIVES SHOULD BE:

1. **tied to the ultimate end-goal for the deliveries** (and not drive volume, e.g., manhours)
2. **tied to common drivers and award good team performance**
3. **simple and understandable for everyone**
4. **more concentrated on bonus than malus**
5. **balancing risks and rewards fairly across the network**
6. **placing risks where they can best be handled**

Requirements for health, safety, and environment (HSE) are fundamental and non-negotiable prerequisites that must never be compromised by any incentives



Norsk Industri

OFFSHORE NORGE

TABLE OF CONTENTS

3. HOW DO WE BUILD A CULTURE THAT DRIVES COLLABORATION AND TRUST?

1. Why should we have shared incentives?

2. What defines effective incentives?

4. What incentivizes each player in each period?

5. Which elements should be the basis for shared incentives?

6. How do we design incentive models?

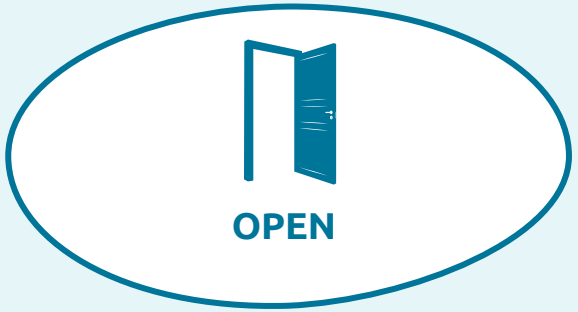
3. How do we build a culture that drives collaboration and trust?

Norsk Industri

OFFSHORE NORGE

WE SHOULD AIM TO BUILD A SHARED CULTURE BASED ON TRUST, OPENNESS, AND COLLABORATION

We should build a shared culture that is…



… and achieve this through

1. Spend time building the culture

Accept that it takes time to get acquainted and build culture

2. "Walk the talk"

Prove our intentions through action

3. Have transparent dialogue about opportunities and risks

Share information as early as possible – from project start

4. Accept that risk is shared

And place residual risk where it is best managed and carried

5. Avoid unnecessary controls

Limit duplicate reporting, verification, and overruling

SHARED CULTURE SHOULD BE BUILT IN AN INTEGRATED TEAM TO ENABLE A JOINT AND SUCCESSFUL EXECUTION

Integrated execution team | «One team»

Operator | Contractor | Selected ‘key’ suppliers

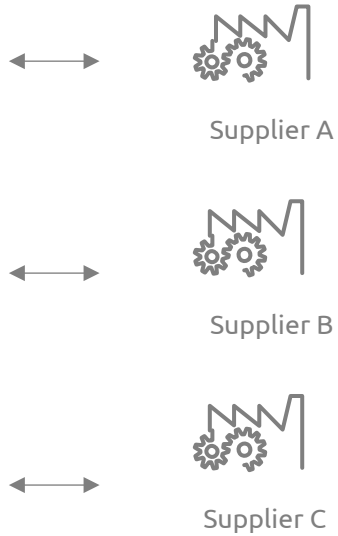
‘One’ culture

- Trustful
- Open
- Collaborative

Shared execution

- Risk and schedule
- Cost and benefits
- Decision making*

*Traditional supplier** – client relationship*



Supplier A

Supplier B

Supplier C

*operators will maintain final authority

**not a part of “One Team”

AGREED FORMAL STRUCTURES CAN BENEFIT THE PROGRESSION OF A SHARED CULTURE

PROCESS GOVERNANCE

FORMALIZATION OF COLLABORATION	The form of collaboration should be formalized and communicated to all relevant parties, addressing (not limited to) governance, organization, deviation handling, principles for risk and opportunity sharing, and timing of supplier involvement. This formalization can be achieved through overarching agreements, MOUs[1], or other formats, in addition to existing contracts. A first joint contract review meeting should be held before negotiations to align and define common objectives and drivers and identify potential conflicting interests. Team managers should preferably be nominated and participate in the review meeting. It should be ensured that the organization responsible for the operation of the facilities also commits to the collaboration agreements.
START OF COLLABORATION	The team should, as early as possible, start a joint risk baselining process and seek to identify areas of improvement compared to traditional practice. Examples being simplification of (not limited to): › Organization (e.g., overlapping roles) › Documentation requirements › Control requirements › Communication processes › Utilization of standardization in procurement (ref. standardized supply chain behavior)
DYNAMIC USE OF CONTRACT	One or more additional joint contract review meetings may be conducted to ensure a common understanding of the agreement for all relevant parties in context of the execution model. The contract should be actively used as a tool and have a role in the dialogue between the parties in the project. This is to ensure transparency and predictability, avoid sub-optimal incentives, and be proactive in solving potential conflicts.
PREDICTABILITY THROUGH PHASES	It is recommended that the collaboration maintain an overall intention to continue through phases without unnecessary pauses. To ensure necessary team continuity when passing decision gates, a strategy should be developed and communicated as early as possible. With continuity in both progress and team, the project will benefit from team-building and ensure transparent and trustful dialogue without other agendas sub-optimizing the overall results.

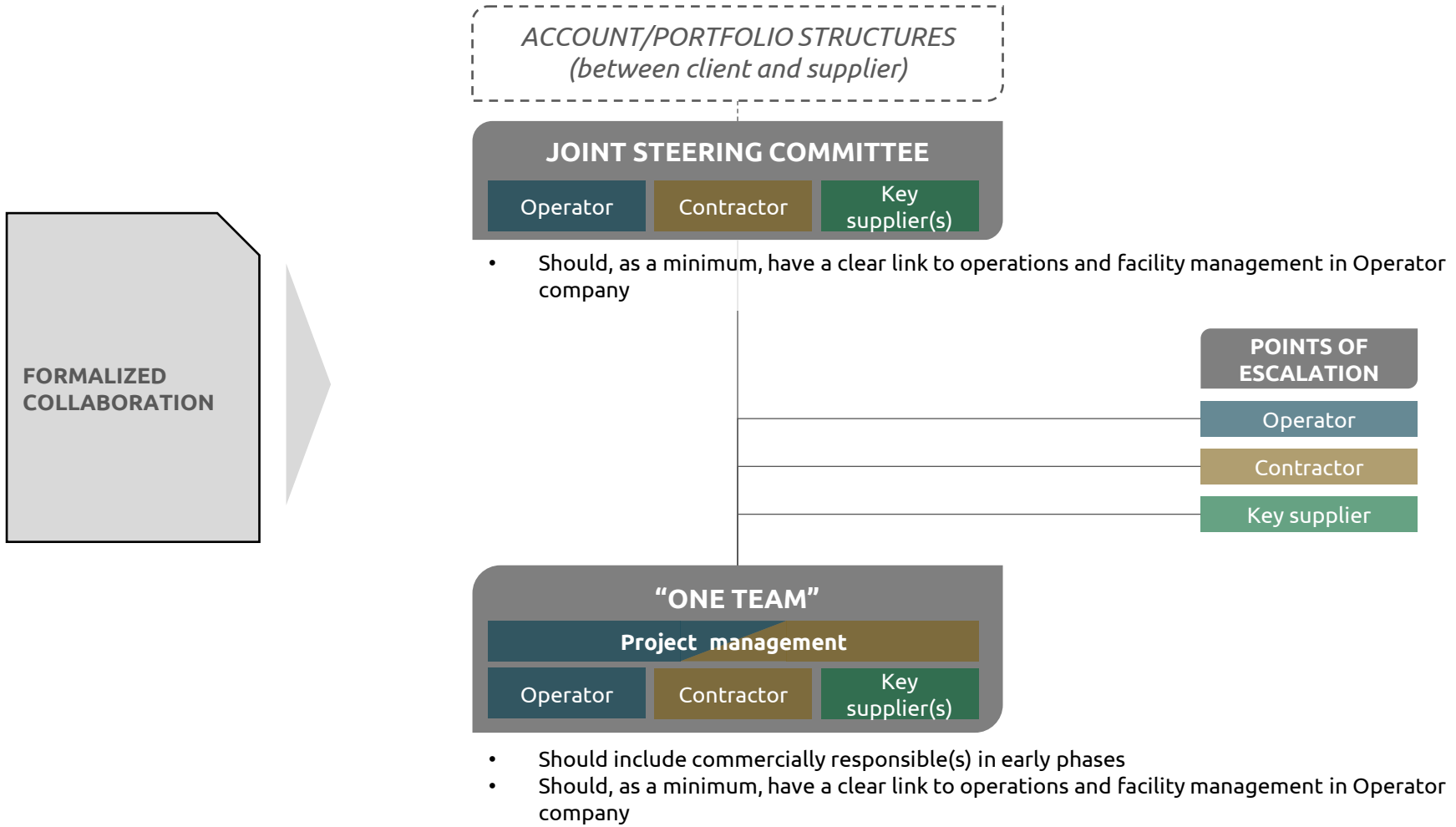
1. MOU= Memorandum of Understanding

AGREED FORMAL STRUCTURES CAN BENEFIT THE PROGRESSION OF A SHARED CULTURE

PROCESS | **GOVERNANCE**

CONTINUITY IN PERSONNELL	To ensure continuity in collaboration, information transfer, and to uphold progress, key personnel should maintain their involvement in the collaboration. This applies to the both client and suppliers.
JOINT STEERING COMMITTEE	A joint steering committee between the participating companies should be established. This may be in addition to committees at account/portfolio level. The project steering committee should champion the project's culture, proactively follow-up on relational matters and thirdly, serve as an authority for escalations and decisions Representatives in the committee should preferably be above project level, but below top management to ensure balance between authority and hands-on operational involvement
"ONE TEAM"	An integrated team should be established as early as possible with roles filled based on a "best person for the job" principle, regardless of company. This includes project management. Establishing the optimal team should be a joint effort. The client should be included in the team – and as a minimum have a link to operations and facility management. Co-location of key personnel in the team is beneficial. Ideal composition is likely to differ between phases, so adjustments are recommended. The same might be relevant for working location of the team. The team should have sufficient authority from their own company to drive progress without external involvement – and as a principle solve challenges within the team.
POINTS OF ESCALATION	A point of escalation should be nominated from each representative party. The intention is to have a low-barrier recipient for raising operational issues where behaviour contradicts the project intentions, including collaboration and joint effort towards a common goal. The Joint steering committee should be the next point of escalation – if necessary.

AN INTEGRATED TEAM WILL ENHANCE EFFICIENT COLLABORATION AND AVOID DUPLICATION OF ROLES



- Should, as a minimum, have a clear link to operations and facility management in Operator company

- Should include commercially responsible(s) in early phases
- Should, as a minimum, have a clear link to operations and facility management in Operator company

TABLE OF CONTENTS

4. WHAT INCENTIVIZES EACH PLAYER IN EACH PERIOD?

1. Why should we have shared incentives?

2. What defines effective incentives?

4. What incentivizes each player in each period?

5. Which elements **should be the basis** for shared incentives?

6. How do we design incentive models?

3. **How do we build a culture** that drives collaboration and trust?

Norsk Industri

OFFSHORE NORGE

COLLABORATION MODELS SHOULD CONSIDER DIFFERENT MOTIVATIONAL FACTORS OUTSIDE OF PROFIT AND RISK (EXAMPLES)

Illustrative timing in projects*

	Decision Gate 0 – Decision Gate 2	Decision Gate 2 – Decision Gate 4
OPERATOR	› Succeed with the project (pass decision gates) › Get the right expertise involved in the project	› Succeed with the project (pass decision gates) › Optimize total cost of ownership (TCO)
CONTRACTOR	› Be selected for project › Be involved early to influence solutions and schedule › Maintain continuity in engagement (pass decision gates)	› Have influence in solution design and concept optimization › Have continuity in engagement (pass decision gates) › Be positioned for engagements with the client
SUPPLIER	› Get selected for project › Be involved early to be able to influence solutions and schedule › Commercialize proprietary products and solutions › Secure intellectual property rights › Get compensated for study contributions (when relevant)	› Be included in “One Team” (when relevant) › Have continuity in engagement (pass decision gates) › Be able to influence solutions and optimize concept › Be positioned for engagements with the client › Secure intellectual property rights

Profit and risk

*similar aspects could also be relevant outside of stage gate projects

TABLE OF CONTENTS

5. WHICH ELEMENTS SHOULD BE THE BASIS FOR SHARED INCENTIVES?

1. Why should we have shared incentives?

2. What defines effective incentives?

4. What incentivizes each player in each period?

5. Which elements should be the basis for shared incentives?

6. How do we design incentive models?

3. How do we build a culture that drives collaboration and trust?

Norsk Industri

OFFSHORE NORGE

INCENTIVE MODELS SHOULD BE DEVELOPED BASED ON THE OVERALL GOALS IN A PROJECT OR FRAME AGREEMENT PORTFOLIO

When selecting incentives, the following overall steps should be taken

1. **Prioritize goals**
2. **Select relevant incentives**
3. **Assess interconnectivity**

The following principles should be used when sharing downside

- Downside should be limited to 0 profit (cost cover only)
- A negative risk should always be balanced with an upside
- Individual risk capacity should be accounted for when placing risk

As a general principle risk and benefit should be shared but…

- Operators should be responsible for facility access
- Suppliers should be responsible for own capacity
- Any residual risk should be placed where it can best be managed

EXECUTION COST AND TIME SHOULD BE THE MAIN ELEMENTS IN INCENTIVE MODELS

	Applicability	
Element	**Benefit sharing**	**Downside sharing**
• Execution cost	**YES**	**YES** *(limited)*
• Time (project execution)	**YES**	-
• Total cost of ownership (TCO)	**YES** *(in selected cases)*	-
• Early involvement of suppliers	**YES** *(in selected cases)*	-
• Share of standard deliveries	**YES** *(in selected cases)*	-
• Weight	**YES** *(in selected cases)*	-
• Circularity	**YES** *(in selected cases)*	-
• CO2 footprint	**YES** *(in selected cases)*	-
• Number of document reviews	**YES** *(in selected cases)*	-
• Continuity in team	**YES** *(in selected cases)*	-

MAIN ELEMENTS for shared incentives

ADDITIONAL KPIs to consider

A few additional elements may be selected and tracked as KPIs in dashboard or similar for the project or portfolio.

The overall goal is to measure if the collaboration is successful. Some of the elements may be relevant to tie (additional and limited) incentives to (case specific).

All Incentives should be simple, measurable, and understandable for everyone

TABLE OF CONTENTS

6. HOW DO WE DESIGN INCENTIVE MODELS?

1. Why should we have shared incentives?

2. What defines effective incentives?

4. What incentivizes each player in each period?

5. Which elements should be the basis for shared incentives?

6. How do we design incentive models?

3. How do we build a culture that drives collaboration and trust?

EXECUTION COST AND TIME SHOULD BE THE MAIN ELEMENTS IN INCENTIVE MODELS

Element	Main principles in designing incentives	Links (not limited to)
Execution cost	The difference between estimate/cost baseline and actual should be shared. Estimate should be matured and agreed between the involved parties. Downside for contractors and suppliers should be limited to zero profit, upside should be capped at agreed reasonable levels.	*Several*
Time (project execution)	Incentives should be based on defined and agreed milestone(s) with main focus on the end of execution (e.g., DG 4). Additional incentives tied to sub-milestones may be applicable if there are schedule-driven activities that are "outside the project" depending on specific project deliveries. Per diem fines and time related liquidated damages could normally be avoided. All time-related risks should be handled equally.	*Execution cost*
Total cost of ownership (TCO)		
Early involvement of suppliers		
Share of standard deliveries (e.g., JIP33 and other industry standards)		
Weight		
CO2 footprint		
ESG (e.g., circularity, energy efficiency)		
Volume of documents and number of reviews		
Continuity in team		

A FEW ADDITIONAL ELEMENTS MAY BE SELECTED AND TRACKED AS KPIs IN DASHBOARD OR SIMILAR FOR THE PROJECT OR PORTFOLIO

Element	Main principles in designing incentives	Links (not limited to)
Execution cost		
Time (project execution)		
Total cost of ownership (TCO)	There should, as a minimum, be mechanisms to adjust for increased Base estimate for Execution cost due to TCO optimization. This could involve some bonus mechanism which should be defined by DG2 latest and settled during the collaboration period.	*Execution cost*
Early involvement of suppliers	The cost of early supplier involvement should be covered in budgets by client. Engineering contributions should be separated from sales activities.	*Execution cost*
Share of standard deliveries (e.g., JIP33 and other industry standards)	"Standard deliveries" must be specified and defined in each case.	*Time, cost*
Weight	Only relevant when limiting weight is an overall goal for the scope.	*Execution cost*
CO2 footprint	This could be relevant both in execution and as effect of solutions (TCO). Scope 1 is likely more relevant to incentivize than Scope 2 and 3.	*Execution cost, TCO*
ESG (e.g., circularity, energy efficiency)	Additional ESG KPIs outside of CO2 emissions may be relevant to measure to achieve specific goals for the deliverable.	*Time, Execution cost, TCO*
Volume of documents and number of reviews	The volume of documents and number of reviews are major indicators for supply chain efficiency. Will depend on client LCI requirements.	*Execution cost*
Continuity in team	This must be seen in context with continuity in deliverables and passing of gates (when applicable). This could be reinforced with individual bonuses (solved within each company).	*Time*

THE INCENTIVE FOR THE PARTIES IS TO OPTIMIZE THE SCOPE WITHIN THE "ONE TEAM" AND SHARE ACHIEVED BENEFITS

Execution cost

Time (project execution)

Total cost of ownership (TCO)

Early involvement of suppliers

Share of standard deliveries

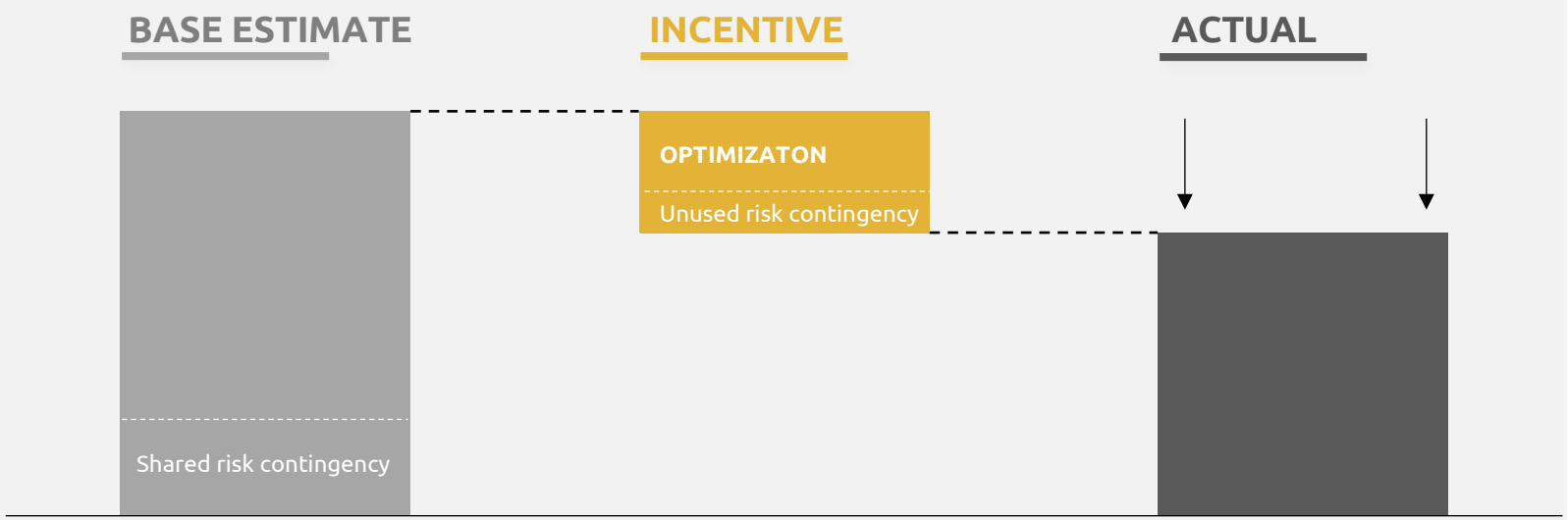
Weight

Circularity

CO2 footprint

Number of document reviews

Continuity in team



Developed/agreed within "One Team"

Decision Gate 1 - 3

(only adjusted when significant scope changes, or when necessary to sustain potential upside)

Gains of optimization and unused risk contingency within "One Team" to be shared

(based on pre-defined and agreed distribution key)

End results for final profit calculation

Decision Gate 4*

*or end of contract

A SHARED RISK CONTINGENCY IS ESSENTIAL FOR ALIGNING INCENTIVES AND SHOULD BE BASED ON A JOINT RISK BASELINING PROCESS

Execution cost

Time (project execution)

Total cost of ownership (TCO)

Early involvement of suppliers

Share of standard deliveries

Weight

Circularity

CO2 footprint

Number of document reviews

Continuity in team

RISK BASELINING

Risk baselining should be a joint process, in workshop(s) or similar and conducted as early as possible. Risks should be documented in project risk register.

REALIZATION

A shared risk contingency should be used for occurred events with negative cost impact, as defined in the project risk register. Other events may be subject to change.

"RISK TO PROFIT"

Unused risk contingency will be shared between the parties in "One team", based on pre-defined and agreed distribution key – equal to other optimization gains.

TO ALIGN DRIVERS AND TIE INCENTIVES TO WHAT IS CONTROLLABLE WITHIN THE TEAM, THE FOLLOWING CONSIDERATIONS SHOULD BE MADE

Execution cost

Time (project execution)

Total cost of ownership (TCO)

Early involvement of suppliers

Share of standard deliveries

Weight

Circularity

CO2 footprint

Number of document reviews

Continuity in team

The following elements should be considered EXCLUDED from the risk and benefit sharing

» Offshore logistics costs

» Construction All Risk (CAR) insurance, and matters covered therein

The following elements should be considered INCLUDED

» Direct operator hours

» All direct procurement, independent by whom

(the following elements are selected and mentioned as they are not always obvious to include)

To avoid volume as a driver, the following ADJUSTMENTS to traditional time compensation may be considered

» Limit the profit element and project-related overhead in direct compensation for hours

» Compensate for direct hours related to planning, procurement etc. with purpose to increase transparency (often lump-sum in overhead) within target sum/execution cost incentive

RISK SHOULD GENERALLY BE SHARED, WITH A FEW EXCEPTIONS

Execution cost

Time (project execution)

Total cost of ownership (TCO)

Early involvement of suppliers

Share of standard deliveries

Weight

Circularity

CO2 footprint

Number of document reviews

Continuity in team

AVOID DUPLICATE CONTINGENCIES

Duplicate contingency entails an unnecessary administrative cost and should therefore be removed to cover shared risk in shared contingency. Unused contingency may then be subject to profit sharing for the benefit of all parties.

» **Limited warranty:** Warranty could be limited to responsibility to perform repairs - for payment. Obligation to rectify unsatisfactory quality should still be intact. In most cases, this mechanism should be limited down to tier 2 suppliers.

» **Limited responsibilities to own deliveries:** Responsibilities should be limited to own deliveries; otherwise, back-to-back with responsibilities of suppliers/subcontractors to avoid need for additional risk contingencies

RISK ASPECTS WITH LIMITED CONTROLLABILITY WITHIN "ONE TEAM"

Examples (not limited to) that should be considered adjusted for/removed from sharing – should be analysed within "One Team" as early as possible

» Currency fluctuations
» Inflation (material prices)
» Geopolitical risk
» Weather (e.g., logistics)
» Soil conditions (when relevant)
» Facility access (operator responsibility)

TIME RELATED INCENTIVES SHOULD PREFERABLY BE LIMITED TO POTENTIAL BONUS FOR MEETING FINAL DELIVERY

Execution cost

Time (project execution)

Total cost of ownership (TCO)

Early involvement of suppliers

Share of standard deliveries

Weight

Circularity

CO2 footprint

Number of document reviews

Continuity in team

Final delivery

It is recommended that incentives related to time should primarily be linked to final delivery (e.g., Decision Gate 4) with potential bonus for early delivery. Milestone should be defined early in collaboration and agreed between the involved parties.

Milestones (during project)

Incentives related to sub-milestones should only be included in special circumstances (e.g. turnaround at the facility). Milestones should be defined early in collaboration and agreed between the involved parties.

Downside

Per diem fines and time related liquidated damages could normally be avoided. All time-related risks should be handled equally, meaning that penalties should not be selectively applied to specific elements.

Other parties (outside “one team”)

For critical suppliers outside of “One Team” it should be considered to incentivize milestones individually.

NEW WAYS OF WORKING AND INCENTIVIZING MAY REQUIRE ADJUSTMENTS TO STANDARD CONTRACTS (1/2)

Company rep.

Company Rep's role to be considered against the agreed governance model

Various articles

Interface management

- Consider the need for adjusting some of the specific obligations of Contractor and/or Company
- Interface management performed as a joint risk

NTK art. 4

Company Documents

- Should be evaluated in relation to "One Team" approach, depending on timing of establishing this
- Must be adjusted in accordance with potential modifications to the Variation Order scheme
- Consider if damages should be avoided in all respects

NTK art. 6

Subcontracting

- To be considered against procurement/subcontracting being a joint risk
- Pass through liability to be considered
- Procurement management to be considered
- Procurement performed by the party best positioned

NTK Art. 8

Progress of the work

This should be considered in the context of the agreed management system and schedule incentive scheme

NTK art. 11

Variation Order scheme

- To be adjusted to agreed governance model and "no changes" philosophy
- Limitations on circumstances causing rights to have the Base estimate and/or the schedule adjusted

NTK Art. 12-16

Cancellation

Depending on the compensation format and the structure of the potential incentive scheme agreed for execution cost, and to what extent profit is retained until late in the project, it must be evaluated how Contractor will be compensated in case of cancellation by Company

NTK art. 17

Bank guarantees

Need for bank guarantees (and associated costs) should be considered against major risk being shared and accounted for in the Base estimate, and Contractor's direct liabilities being reduced

NTK art. 20.2

NEW WAYS OF WORKING AND INCENTIVIZING MAY REQUIRE ADJUSTMENTS TO STANDARD CONTRACTS (2/2)

Delay liability

Normally requires material amendments to exclude delay liability and rather use positive incentives (bonuses) combined with the effects of time impacting on cost and hence the cost incentive

NTK art. 24

Guarantee liability
(Contractor)

Should generally be amended to be aligned with how Base estimate is established and cost incentive is settled. Cost of rectification may be part of execution cost and hence be subject for direct cost compensation. Liability for damages etc. should normally be avoided to avoid "double" contingency in base estimate. Subcontractor's liability may be efficient as pass through.

NTK art. 25

Termination

If delay is a joint risk, delay should normally not be reason for termination (unless in case of gross negligence etc.)

NTK art. 26

Loss and Damage

- Risk distribution for loss of and damage to the deliverables/contract object/facility must be evaluated based on how these risks are included for in the Base estimate.
- Associated absolute requirement for Construction All Risk (CAR) insurance to be evaluated

NTK art. 29/31

Breach of Contract
(Company)

- Must be considered against a shared risk and «no change» philosophy
- May require adjustments in relation to changes in the Variation Order scheme and scheme for adjustment of Base estimate

NTK art. 27

Total liability

Size/amount to be considered against major risks being shared, pass-through of Subcontractor liability, exclusion of liquidated damages and avoidance of liability for general damages

NTK art. 32

EXAMPLE MODELS

TWO HIGH-LEVEL EXAMPLE MODELS FOR SHARED INCENTIVES TIED TO EXECUTION COST HAVE BEEN ILLUSTRATED FOR REFERENCE

Execution cost

Time (project execution)

Total cost of ownership (TCO)

Early involvement of suppliers

Share of standard deliveries

Weight

Circularity

CO2 footprint

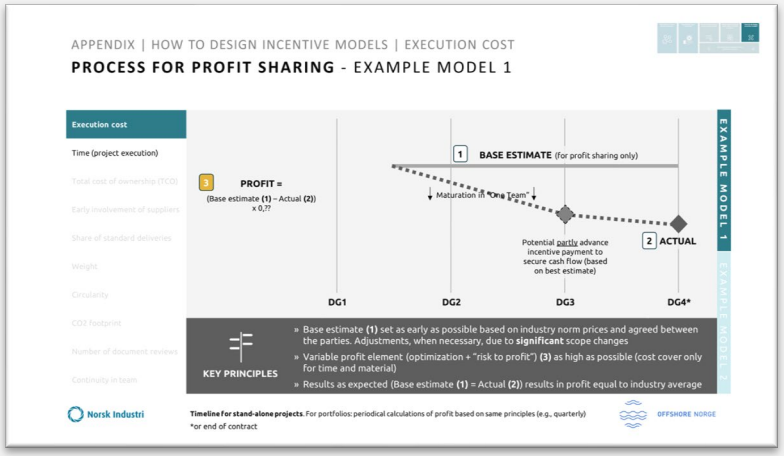
Number of document reviews

Continuity in team

Common for both models is early involvement of suppliers to jointly mature and optimize scope within “One team”

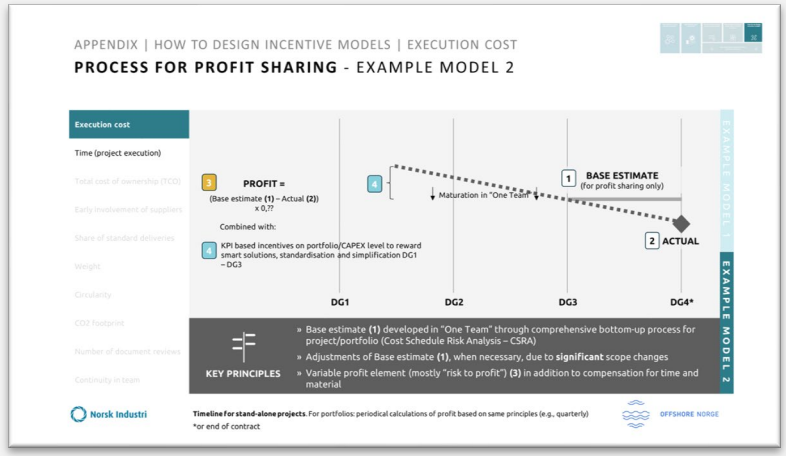
Example model 1

Example model 1 works best when there exists good quality experience data to build the Base estimate on



Example model 2

Example model 2 works best when there is established long-term and mutually beneficial relationships (e.g., alliances or partnerships)



Norsk Industri

OFFSHORE NORGE

PROCESS FOR PROFIT SHARING - EXAMPLE MODEL 1

Execution cost

Time (project execution)

Total cost of ownership (TCO)

Early involvement of suppliers

Share of standard deliveries

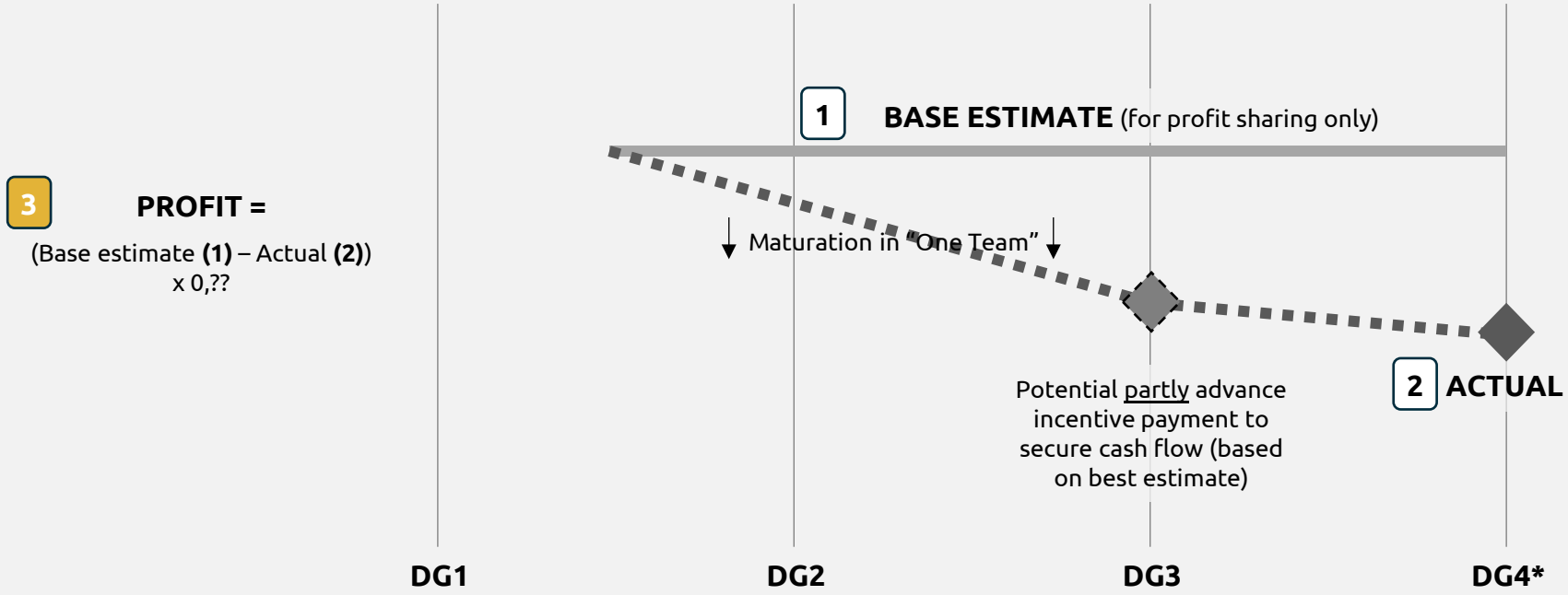
Weight

Circularity

CO2 footprint

Number of document reviews

Continuity in team



EXAMPLE MODEL 1

EXAMPLE MODEL 2

KEY PRINCIPLES

- Base estimate **(1)** set as early as possible based on industry norm prices and agreed between the parties. Adjustments, when necessary, due to **significant** scope changes
- Variable profit element (optimization + "risk to profit") **(3)** as high as possible (cost cover only for time and material)
- Results as expected (Base estimate **(1)** = Actual **(2)**) results in profit equal to industry average

Timeline for stand-alone projects. For portfolios: periodical calculations of profit based on same principles (e.g., quarterly)

*or end of contract

PROCESS FOR PROFIT SHARING - EXAMPLE MODEL 2

Execution cost

Time (project execution)

Total cost of ownership (TCO)

Early involvement of suppliers

Share of standard deliveries

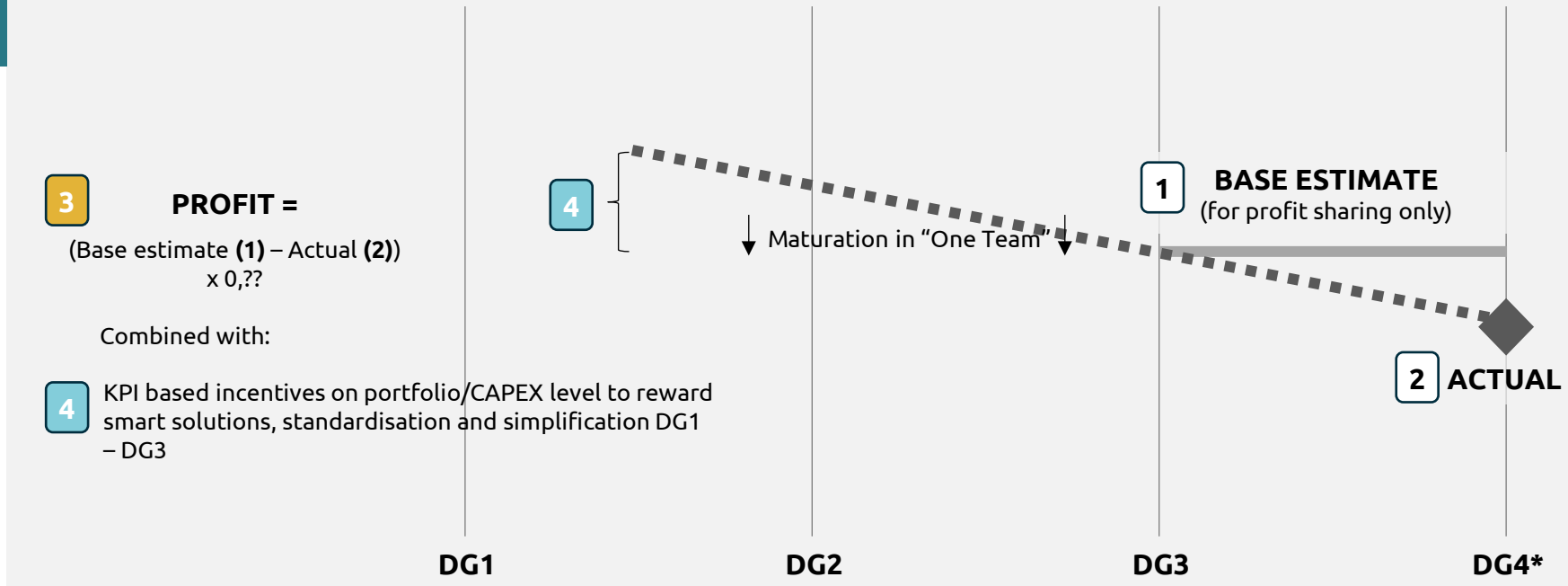
Weight

Circularity

CO2 footprint

Number of document reviews

Continuity in team



EXAMPLE MODEL 1

EXAMPLE MODEL 2

KEY PRINCIPLES

- » Base estimate **(1)** developed in "One Team" through comprehensive bottom-up process for project/portfolio (Cost Schedule Risk Analysis – CSRA)
- » Adjustments of Base estimate **(1)**, when necessary, due to **significant** scope changes
- » Variable profit element (mostly "risk to profit") **(3)** in addition to compensation for time and material

Timeline for stand-alone projects. For portfolios: periodical calculations of profit based on same principles (e.g., quarterly)

*or end of contract