

ENGINEERING & CONSTRUCTION RISK INSTITUTE

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Purpose: To present best practices associated with Engineering and Construction (E&C) companies contracting and managing Operations and Maintenance (O&M), or a subset of O&M activities for Clients.

Introduction: Clients may choose to outsource the operation and maintenance of their facilities to an E&C company. Typically, a Client chooses to outsource O&M for three primary reasons: (1) O&M core expertise, (2) cost savings, and/or (3) a desire to transfer operations and maintenance risk to the Contractor. The first reason, core expertise, is important when the Client either lacks core expertise in O&M (either management or trained/skilled personnel) or views O&M as distraction from their real core skills/expertise (such as creation of new innovative products). In some circumstances, the project financing entity has required the Client to outsource O&M to a highly qualified O&M organization before providing project funding. The second reason, cost savings, is significant when the Client views their existing O&M capability as expensive or performing poorly (e.g. inefficient or excessive safety, environmental or quality problems). By outsourcing to a Contractor with demonstrated excellence in O&M, the Client hopes to improve performance, cut costs and potentially reduce long term pension and benefit liabilities. The third reason, transferring O&M risks to a Contractor, is an opportunity available to Clients when developing and negotiating the contract for outsourcing O&M.

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