

DREDGING PRICES WHAT THE?

- »» An Introduction to Some of the Factors Affecting Price For the Non-Contractor

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Dredging Prices – Three Basic Factors:

1. Anticipated Contractor Costs

- Mobilization Expense
- Capital Cost Recovery
 - ❖ Capital Investment Recovery Period
 - ❖ Anticipated Utilization (Operating Days per Year)
- Other Daily Costs (Labor / Fuel/ Maint & Wear/ Overheads)
- Fully Allocated Cost Divided by Estimated Production = Unit Price

2. Perceived Risk

- Production Variation
- Re-Work
- Unanticipated Non-Recoverable Costs (Delays, Third Party)

3. Market Conditions

- The Level of Competition
 - The location and availability of competitor equipment
 - The Estimated Cost for the Competition

Impact of Anticipated Utilization

	Scenario 1- Positive Outlook		Scenario 2- Uncertain Outlook	
Capital Equipment Newbuild Cost	\$35,000,000		\$35,000,000	
Capital Recovery Period	20 yr		5 yr	
Cost of Money	7%		7%	
Annual Capital Cost	\$2,600,000		\$6,600,000	
Anticipated Average Annual Op Days	200		120	
Daily Capital Cost Allocation	\$13,000	12%	\$55,000	35%
Labor	\$25,000	24%	\$25,000	16%
Fuel, Maint & Wear	\$35,000	33%	\$35,000	22%
Field Overhead	\$10,000	9%	\$10,000	6%
Home Office Overhead	\$12,450	12%	\$18,750	12%
Profit	\$10,000	9%	\$14,000	9%
Total Daily Cost	\$105,450	100%	\$157,750	100%
Expected Production	7,500 cys/day		7,500 cys/day	
Unit Price	\$14		\$21	
				150%

Make Your Dredging Cheaper By:

- Consolidating your equipment type requirements so you end up having enough work (by equipment type) to give contractors an expectation of reasonable annual utilization.
- Provide as much long term certainty as possible on the type of equipment needed. This will help facilitate contractor investment in new equipment (i.e. more efficient tools and/or more bidders)
- Make Every Effort to Ensure your Project Design and Permit Expectations are Achievable within Standard Industry Equipment and Practices or Make Clear You are Not Expecting Standard Equipment / Practices and be Prepared to Pay the Additional Capital Allocation (i.e. new equipment charged off on one job)

Make Your Dredging More Expensive By:

- Routinely Change Dredging Equipment and Disposal Equipment Requirements (i.e. large ABS dump barges, smaller inbay dump barges, upland unloaders, electric equipment, long pipelines / no pipeline.
- Not Clearly Communicate your long term plans with some certainty on Dredging Modes / Equipment Requirements Over the Long Term
- Forcing the work into windows, ensuring a spike in equipment required and then a long period of no utilization
- Making the Contract Performance and Permit Requirements unclear as to their achievability and demonstrate a willingness to fine contractors and/or require rework within the repeatability tolerances of measuring tools

Take Aways

- Owners and Stakeholders Can Influence Prices
- Confidence in the Out-year Requirements Facilitates the Investment that Leads to Greater Efficiency and Competition
- Windows are Expensive (annual operating days)
- Promote clarity in achievable, measurable, enforceable and necessary Requirements
- Uncertainty is Expensive