

LCBB6006

Project Management -CW2

**Title: Contracting Methods in Project Management: An
Evaluation within the UK Renewable-Energy Sector**

KRISTIYAN PIRINDZHIEV - 2309382

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1. Introduction

Project management (PM) is a field of study that focuses on the formal plan, implementation and control of temporary projects with the aim of meeting set goals within the scope and time constraints as well as cost. Contracting plays a crucial role in the renewable energy sector in bringing together the project stakeholders, sharing risks, and responsibilities. The contracting approaches determine the legal and operational framework on how projects should be performed, laying out the duties between the owners, contractors, and third parties (Kerzner, 2022).

This essay is a critical analysis of the four major approaches to contracting in project management Turnkey, Multicontract, Do-It-Yourself (DIY), and Multicontract + DIY with special reference to their use in the UK renewable-energy sector. The essay evaluates their pros, cons and their applicability in various project environments including in offshore wind farms and in solar plants. The general purpose is to point out the effect of the contracting method selection on project efficiency and costs control, as well as quality assurance within the framework of sustainable energy transitions

2. Background: Contracting in Project Management

Contracting in project management The procedure of formally involving third parties to convey specific project in elements is known as contracting. The strategy maintains a legal clarity and risk management, as well as balancing the flexibility and accountability among the participants of the project (Walker, 2021). Engineering, procurement, and environmental compliance are multidisciplinary and hence contracts in renewable-energy projects are very complicated. The energy transition in the UK, which was driven by the 2050 net-zero target set by the government, has resulted in a boom of large-scale solar projects, offshore wind projects, and battery-storage projects (BEIS, 2023). These projects are managed by various different actors, who include design consultants and turbine manufacturers, grid-connection experts and civil contractors, in their process and so contracting strategy is one of the key factors in determining the success of a particular project.

The contracting methodology depends on a number of variables such as the size of the projects, uncertainty in the technicalities of the projects, the funding, and the ability of the

client to manage the project. A good definition of every contracting approach can enable project managers to align procurement and governance strategies with strategic objectives like risk mitigation, innovation and sustainable delivery.

3. Turnkey Contracting Method

3.1 Definition and Application

A Turnkey contract is where only one contractor takes all the responsibility of the design, procurement, construction and commissioning. The contractor provides the project in a state where it can be put to operation immediately, thus telling the word turnkey. This is normally applied in giant infrastructure and energy projects wherein the client would rather have a single source of responsibility. Turnkey contracts are also commonly used in the UK renewable-energy sector with onshore wind farms or solar parks, with the same group of phases being managed by an Engineering, Procurement, and Construction (EPC) contractor (Davies, 2021). The client only stipulates the functional requirements and performance criteria, whereas the contractor performs.

3.2 Advantages

The main benefit of turnkey contracting is the risk transfer. The contractor is liable to design flaws, expense over-runs as well as schedule slippage. This is a fixed price contract that gives the customer certainty over the costs and the administrative controls are kept to a minimum. In addition, the EPC contractor maintains all interfaces on a cross-disciplinary basis, project integration will be smooth, which contributes to the efficiency of coordination. To developers of renewable-energy assets that do not have the technical resources in-house or have limited capacity, e.g. community-owned cooperatives, the turnkey contracts are straightforward to deliver (Smith and Green, 2022).

3.3 Disadvantages

Nevertheless, turnkey contracts can lower the ability of the client to optimise design and innovativeness. The fixed-price model is where contractors will look to minimise their costs to an extent that it might be at the cost of quality or even sustainable concerns. Moreover, change in design requested by any client after contract award usually causes a variation order

that is costly. This inflexibility may interfere with changing environmental requirements in renewable-energy initiatives or adverse revision of designs as the site develops. Additionally, the contractors are ready to add risk premiums to the bid, overestimating the original project expenses (Zhu and Wang, 2020). Turnkey contracting is therefore simple, but it might not be applicable in projects that have flexibility needs or those that need close client involvement.

4. Multicontract Method

4.1 Definition and Application

Multicontract strategy separates the entire scope of the project into the hands of various contractors who have individual responsibilities of working on certain parts of the project including civil works, electrical installation, and supply of equipments. These contractors are coordinated by the project owner who in most cases is with the assistance of a project management consultant. An example of such a project is in the UK, where a separate contract can be awarded to supply turbines, fabricate foundations, marine logistics, and connect to the grid (Elliott et al., 2023).

4.2 Advantages

Multi contracting offers flexibility and competitiveness in terms of the costs because the owner can choose specialised contractors with the most optimal technical and financial conditions in relation to each package. This structure promotes competition and direct negotiation with niche suppliers that facilitates quality and innovation. The client retains the right of making design choices and is capable of changing procurement order according to the project movement. In case of renewable-energy developers possessing rather competent project management teams, this approach allows controlling costs precisely and allows transparent work distribution (Nguyen, 2021). It also eliminates reliance on a single supplier, which will lead to increased resistance to failure by one contractor.

4.3 Disadvantages

The main drawback is the complexity of coordination. There has to be a good planning, scheduling, and interface management system to manage numerous contractors. Any time lag or failure to communicate between packages can lead to ripple effect to the project schedule.

Moreover, risk will always be still with the client and therefore cost overruns or scope gaps might arise when boundaries of the contract are not defined properly. The administrative workload on the owner is immense and full of internal strength is required. Multicontracting may add to managerial pressure and extend project delivery time in the already problematic UK renewable sector where the environmental permitting process and grid coordination are already established (Rehman, 2022).

5. Do-It-Yourself (DIY) Contracting Method

5.1 Definition and Application

In the DIY or self-managed approach, the owner of the project performs the majority of project activities or all project activities with in-house resources, and only contracts with minor specialists. It is typical of smaller or pilot renewable-energy projects in which the owners have significant technical knowledge or do not want to relinquish control. Stated as an example, a microgrid installation by a university or a solar project by a local council can follow the DIY model, where internal engineers and procurement officers will be involved (Thomas and Leung, 2020).

5.2 Advantages

Maximum scope, design, and quality control is granted by DIY contracting. Due to the direct control of internal teams over all the details of the execution, it is simpler to maintain the alignment with the organisational goals, i.e. sustainability or community interaction. The administrative expenses are normally low because there is limited use of outside contractors. Also, knowledge and expertise acquired in the process will be retained in the organisation as part of institutional learning and capacity building in the future. This is in line with renewable projects that are funded by the public sector and focus on the development of local skills (BEIS, 2023).

5.3 Disadvantages

The DIY contracting, notwithstanding these advantages, puts the organisation at high risk of execution. Internal teams might have problems managing the schedule, complexity of the supply chain, or regulatory compliance without the experience and resource base of specialist

contractors. Lack of external transfer of risks may result in extreme cost increases in case of any unexpected obstacles. Where the projects of renewable energy require complex grid interconnection or offshore facilities, it is not often possible to use self-contracting because of high technical and safety imperatives. Besides, the cost of internal labour and delays are not necessarily captured in full hence budget performance may be giving a false impression (Davies, 2021).

6. Multicontract + DIY Hybrid Method

6.1 Definition and Application

Multicontract + DIY approach is a hybrid of the two methods: the client does some of the work by themselves and contracts the larger work packages. This hybrid model is flexible and cost-efficient, and there is some control. This may be an internal environmental assessment and procurement undertaken by the client and external construction, commissioning, and grid interconnection specialists in UK renewable-energy projects (Nguyen, 2021).

6.2 Advantages

The hybrid form manages to share control and risk. The client is able to retain control of tasks of strategic importance or of high risk and send technical or high capital packages to capable contractors. This strategy enables incorporation of internal skills in sustainability monitoring, safety and community involvement. An illustration of this is the management of the stakeholders and environmental compliance in an offshore wind project, the developer would hire the marine work and electrical work contractually and internalize the stakeholder management. This type of synergy promotes responsiveness and flexibility to regulatory or market shifts, which are important in the rapid UK energy transition (Elliott et al., 2023).

6.3 Disadvantages

The hybrid approaches, however, require the boundary management between the inside and outside teams. The use of ambiguity in the scope allocation may cause controversies or overlapping. The problems of coordination can also occur when the inner teams are not as mature in terms of project management as professional contractors. Also, although the hybrid approach will decrease reliance on one party, there will still be fragmented accountability in

the performance evaluation. The effectiveness of such approach relies strongly on the project governance system and discipline in the communications of the client (Zhu and Wang, 2020).

7. Comparative Evaluation of the Four Contracting Methods

Comparative analysis points out that Turnkey contracts are best-simplified large-scale renewable projects with the client interested in simplicity and assured delivery like 50MW solar farms funded by a private equity. This has a cost of increased initial cost and lack of design flexibility however. On the other hand, Multicontract approach is more appropriate to those who are more experienced developers or to utilities such as SSE Renewables or Ørsted UK, which have the in-house knowledge to maintain the multiple interfaces and eliminate the coordination risk. This model allows the control and technical optimisation on a small scale and complicates the administration.

The DIY approach works with smaller community or institutional sizes of renewable-energy initiatives that seek low-cost and locally controlled solutions. Although it develops internal capacity, it is hardly achievable in projects over 5 million of pounds because of technical and regulatory difficulties. Lastly, the Multicontract + DIY hybrid comes out as a more sensible compromise, with flexibility and control. Hybrid models are becoming more popular among the developers in the UK renewable-energy market to achieve the sustainability goal, supply chain resilience, and inclusivity of stakeholders (Smith and Green, 2022). Finally, the choice of contracting is determined by the size, complexity, structure of funding and organisational maturity. A more informed choice can be more cost effective as well as aligned to the environment and social governance (ESG) concerns that are at the heart of sustainable infrastructure development.

8. Case Example: Turnkey Contracting in the Hornsea Two Offshore Wind Project

An example of how contracting strategy beneficially applies in practice can be seen in the Hornsea Two offshore wind farm commissioned in 2022 in the Yorkshire coast. The 6billion project was designed by Ørsted UK, which employed a quasi turnkey approach to the principal offshore substation and turbine packages including Siemens Gamesa and ABB as the key partners. The turnkey structure enabled Ørsted to gain a smooth delivery and reduced coordination risk in the sea operations. Nevertheless, disruptions in the supply chains during

the late stages of COVID-19 unveiled how ineffective the fixed-price contracts are in case of the force majeure (BEIS, 2023). Nevertheless, Hornsea Two went commercial on time, showing that the model can be used to make complex and capital-intensive renewable projects in which quality assurance and integration are the most important factors to consider. The case highlights the fact that turnkey contracting may be effective in instances where the risk is properly handled by due diligence and contingency planning.

9. Critical Discussion

The capacity to choose a suitable contracting approach in renewable-energy projects is essentially the matter of risk-control balance and partnership. Turnkey contracts are very risk-focused and concentrate on risk, multicontracts are decentralised, requiring coordination skills; DIY projects tend to encourage ownership, whereas hybrid contracts focus on governance and flexibility.

Recent publications also focus on the increased significance of collaborative contracting schemes and alliances models that introduce sustainability indicators into project delivery (Walker, 2021). The aspect of digitalisation, which has been facilitated through Building Information Modelling (BIM) and cloud-based project controls has continued to enhance the possibility to operate multicontract and hybrid buildings effectively. Nevertheless, it remains a matter of leadership skills, scope definition, and the level of communication between stakeholders (Nguyen, 2021). Transparency and fair sharing of risks have also become the key to financing and obtaining regulatory approval in renewable-energy projects where public-private partnerships (PPP) are frequently used. Therefore, the method of contracting in use should not merely focus on cost and risk but must also be strategic in regard to sustainability objectives and expectations of stakeholders (Smith and Green, 2022).

In addition, the UK post-Brexit reality has further complicated the UK renewable contracting, and the new supply-chain dependability and regulatory compliance demands (Rehman, 2022). This phenomenon underscores the necessity of innovative contracting models, which entail resilience planning. Agile projects that combine the old systems with the cooperative models can become more common in the future in response to the constantly changing environment and volatility on the global market.

10. Conclusion

The use of contracting strategies in project management also assumes centre stage in determining project success particularly in the UK renewable-energy sector, which is capital intensive and sensitive to regulations. The four contracting models, Turnkey, Multicontract, DIY and Multicontract + DIY, have their own advantages and limitations. Turnkey is easier and risk-transferred at a greater cost; multicontract does not provide flexibility, but the complexity of coordination grows; DIY gives ownership to the client but puts them at risk of execution; and the hybrid approach controls execution and outsourcing, but demands disciplined governance.

The hybrid or turnkey models are likely to provide the best results to large-scale renewable projects as they allow the allocation of control and accountability, while distributing the risks. Nevertheless, in smaller, community-based projects, DIY or selective multicontract methods can be more practical. Finally, success of any form of contracting is dependent on the organisational ability of the client, the size of the project and its sustainability. Contracting strategies should also change in an age where renewable energy becomes the core of the net-zero transformation in the UK to incorporate risk resilience, technological innovation, and long-term value creation.

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