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CECA NEC4 Bulletin

CECA Member Briefing:

Bulletin Nr 70 - Different Types of Quotations in relation to Compensation Events

Introduction

Training and development support is a key part of CECA's core offer for its membership and working in conjunction with GMH Planning it has delivered a programme of training events around the NEC Form of Contract across several CECA UK regions.

In addition to this training, a series of monthly NEC Contract Bulletins are being produced for both Contractors and Subcontractors to improve practical awareness on key topics within the NEC. The coverage, whilst not exhaustive, is intended as a general overview on some of the contractual principles to increase a wider understanding in support of more sustainable outcomes.

For the purposes of these bulletins a contractual relationship between a "Client" and "Contractor" is assumed. The same rules/principles also apply if the contractual relationship is between a "Contractor" and a "Subcontractor" and so the term "Contractor" will be used to describe both parties.

These bulletins are based on the latest NEC4 family of contracts, but the same principles and rules would apply where parties are engaged under an NEC3 form of contract.

Coming next month:

Bulletin Nr 71 - Professional Service Contract and Schedule of Cost Components

Please respond to Lucy Hudson should you require any further information on the CECA NEC4 Bulletins via e-mail: lucyHUDSON@cecasouth.co.uk.

For further advice or guidance on the NEC details please visit www.gmhplanning.co.uk where you will find a wealth of free [NEC Guidance Notes](#), [NEC FAQs](#), and other helpful measures.

NEC Bulletin 70: Different types of quotations in relation to compensation events

Several of our previous bulletins have covered various aspects of the compensation event process, including:

- Bulletin 4 – assumptions within CE quotations
- Bulletin 8 – programmes with CE quotations
- Bulletin 15 – getting compensation events accepted
- Bulletin 17 – showing non-implemented CEs on the programme
- Bulletin 18 – assessing a CE against the last Accepted Programme

This bulletin will focus specifically on the three quotation types that can be instructed with regards to the compensation event process and how/when they should be used.

Clause 61.1 and 61.2: Under clause 61.1, if the compensation event arises from the Project Manager giving an instruction or notification, issuing a certificate, or changing a decision, the Project Manager should notify the Contractor of the compensation event at the time of that communication. Depending on the cloud-based system, this may be done within one communication or generate two separate communications at the same time. It would be one communication to confirm the instruction/notification, and one to confirm that this event is considered by the Project Manager to be a compensation event.

Clause 61.2 then separately obligates the Project Manager to include in the notification of the compensation event an instruction to submit a quotation. Again, depending on the cloud-based system being used, this may be included on the same communication, or generate an additional communication to instruct the Contractor to submit a quotation.



What if the Project Manager does not state that an instruction is a compensation event? In this situation the Contractor may notify (under clause 61.3) that they believe the event to be a compensation event. The Project Manager would then have to respond (within one week) if they agree or not that it is a compensation event. If the answer is yes, they should then instruct the Contractor to submit a quotation (see clause 61.4).

Should the Contractor proceed in the meantime for a clause 61.2 quotation? With these types of quotations, the Contractor is obliged to proceed with the works whilst the quotation is being produced. If there was an instruction from the Project Manager to do additional works to that shown in the Scope, the Contractor must “obey” the instruction (clause 27.3) given in accordance with the contract. A Contractor may consider that they are “proceeding at risk” if the subsequent quotation has not yet been agreed before they do the work. In truth, they are only proceeding at risk that the Project Manager may not accept their quotation, and subsequently make their own assessment at a lower value. If it is agreed (implemented) by the Project Manager at a lower value than the Contractor truly believes it is worth, this could be challenged by the Contractor through the dispute resolution process (see bulletin 19).

Clause 62.1 alternative quotations: This clause states that after discussing with the Contractor different ways of dealing with the quotation, the Project Manager may instruct the Contractor to submit alternative quotations. The Contractor submits the required quotations to the Project Manager. They may also submit quotations for other methods of dealing with the compensation event which they consider practicable.

Should the Contractor proceed with the works in the meantime under clause 62.1? The answer is that it depends. If the instruction is for a new pipeline to be installed and the two alternative quotations are for “open cut excavation” and “directional drilling with no excavation”, these are fundamentally different approaches

and there is little or any work the Contractor can proceed with until the decision is made by the Client on the preferred method.

If, however, the two quotations are for the same construction method but different pipe materials, then there is some work the Contractor can potentially proceed with such as preparing for digging the trench to install the pipe into. In this scenario the construction method will be the same, but there will just be a price difference between the two materials. Once the alternative quotations have been submitted, the Project Manager as part of their response to the quotations would have to instruct which option they wish the Contractor to proceed with.

Could alternative quotations be used to avoid Completion Date moving? Clients/Project Managers may consider that they can use “alternative quotations” as a way of trying to avoid a delay to the Completion Date due to the effects of a compensation event.

Let’s say additional works have been instructed which are agreed as a compensation event and an instruction for the Contractor to provide a quotation issued under clause 61.2. The quotation is subsequently issued, along with a programme showing the impact of the event against the last Accepted Programme (clause 62.2). As well as a significant cost impact, the quotation shows a delay to planned Completion Date of two weeks.

If the effect of the compensation event is that planned Completion has moved, then there is an entitlement to move Completion Date by the same amount once the compensation event has been implemented (agreed). If the original date was important to the Client, they may subsequently request a quotation for acceleration (clause 36) to bring it back earlier. The Project Manager cannot make their own assessment of an acceleration quotation and is a simple case of “offer and acceptance” between the two Parties. A proportion of the quotation would be the Contractor’s judgement on resultant additional risk they will incur as a result of having to commit to an earlier date (and earlier delay damage liability under X7).

This is therefore intended to be a two-stage process. The compensation event assessment would move the Completion Date, and a subsequent acceleration could bring it back. If the alternative quotation process was allowed to include acceleration, it would mean that the Project Manager would be able to make their own assessment of the acceleration element within that compensation event quotation which is not the intent of the contract. The alternative quotation process is not intended to be used for “now give me an alternative quotation where the planned Completion does not move” for the Project Manager to assess.

The fact that the clause for “alternative quotes” is stated in clause 62.1 (before any references to responding to quotations) demonstrates the intention of this clause as being alternative quotes as part of the initial submission.

Is the Contractor obliged to minimise the impact of a compensation event? Yes, the Contractor should be seeking to minimise the impact of the compensation event within the quotation. However, that does not mean that the Contractor must increase their own risk by changing their programme or resource/equipment levels in order to always maintain the original Completion Date.

Quotations instructed under 65.1: These types of quotations are for where a Project Manager may want to explore the potential impact of something before they commit to doing it. The Project Manager may instruct the Contractor to submit a quotation for a proposed instruction, including the date by which the proposed instruction will be given. The Contractor submits a quotation within three weeks of being instructed to do so. This quotation is assessed as a compensation event. The Project Manager replies to the quotation by the date when the proposed instruction may be given (in effect creating an expiry date of the Contractor’s offer).

The response to a Contractor’s quotation for a proposed instruction will either be:

- an instruction to submit a revised quotation (and the reasons for doing so),
- the issue of the instruction together with a notification of the instruction as a compensation event and acceptance of the quotation, or
- notification that the quotation is not accepted

If there is no response to the quotation within the timescale then it is treated as “not accepted” and the

Contractor should not proceed with the works. Once the date has passed which the Project Manager had stated they would instruct by, it would require a new/revised quotation from that point onwards.

Project Manager should state the clause that they are instructing the quotation under: This should be an obvious statement based on what we have discussed so far, and the use of a good cloud-based system will force this good practice anyway (but do your homework on which is the best one for you). The system should not allow a Project Manager to instruct a quotation without first making it clear under which clause they are instructing under. As we have seen in this bulletin, the clause is essential for the Contractor to understand if they should be proceeding with the works in the meantime.

Is everything the same for NEC3 That is covered in this bulletin? The broad principles are the same but the equivalent clause numbers are slightly different. Under NEC3, the equivalent clauses are listed in the table below.

Type of Quotation	NEC4	NEC3
Quotation (in the meantime proceed with works)	61.2	61.1
Proposed instruction (but don't proceed)	65.1	61.2
Alternative quotations (don't proceed with both)	62.1	62.1

In addition, the proposed instruction process is more well defined in NEC4, as in NEC3 there was no obligation for the Project Manager to state when they planned to instruct the works, so it was left unclear how long the Contractor's quotation was meant to be valid for. This confusion has been cleared up in NEC4.

Summary: Understanding under which clause the quotation has been instructed is essential for the Contractor to know how they should proceed in the meantime. For NEC4 an instruction under clause 61.2 means proceed with the works in the meantime. With quotations for proposed instructions (65.1) or alternative quotes (62.1), the Contractor should not be proceeded with the works and need to wait for further instruction from the Project Manager for these elements.