

# CHANGE ORDER & BACKCHARGES

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# AGENDA

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# *Change Order*

This chapter describes the typical causes of contractual changes and present a process for controlling and accommodating changes within the frame work of owner-contractor agreements

## *Types Of Contractual Changes*

- Design Changes
- Schedule Changes
- Price and Cost Changes
- Resequencing of Design & Construction Activities
- Material Substitution
- Modification to Construction Methods

# *Categories of Contract Changes*

- Informal Changes (Constructive Changes): modification to the contract's scope of work or method of performance that result from acts or omissions of the owner, God, or a third party.
- Formal Changes: Changes made by the owner and result in written directives to the contract to change the scope of work, time of performance, etc... once the contract is awarded.

## *Typical causes of change*

- Defective or Incomplete Design Information.
- Late or Defective Owner Furnished Materials and Equipment.
- Changes in Requirements.
- Changed or Unknown site Condition

## *Continue...*

- Restriction In Work Method
- Delay or Acceleration.
- Impact of Collateral Work by Others.
- Ambiguous Contract Language and Contract Interoperation.
- Late or Inadequate Contractual Compliance on Part the Owner.

# *The Changed Work Process*

- ***Identification:*** Owner should notify contractor of a planned or potential change. (*Exhibit 13*)
- ***Evaluation:*** The owner must decide whether to adopt the change or not. If discovered after the fact, it should be estimated. (*Exhibit 14.*)
- ***Approval:*** When both parties agree to the change, a change order approval form is issued (*Exhibit 15.*)

## *Continue...*

- ***Incorporation:*** Once a change order is approved by the owner, it is issued to the contractor to modify the terms of the original agreements. (*Change order form exhibit 16*).
- ***Payment:*** Change work should be identified and listed separately on progress estimates and invoices.

# *Exception to Changed Work Process*

In case of emergencies or any unusual condition, we can't use the formal process. Instead, the contractor will be instructed to do the necessary work (some times verbally).

## *REPRESENTATIVE CASE*

A unit-price contract for furnishing and installing structural and miscellaneous steel contained an extensive price list for virtually every category of item that could be needed for a coal-fired power plant project. Of the several hundred priced items, one was for furnishing and installing “metal building frames and louvers” contemplated for the turbine building air exhaust system at a price of \$40 per pound of steel. After 18 months of work, the design was changed to require the addition of eight “exhaust vents with adjustable vanes.” A change order was issued upon a lump-sum quotation from the contract of \$88,000. While reviewing the change order files, an independent auditor later pointed out that the additional “exhaust vents with adjustable vents” were identical to the “metal building frames and louvers” for which unit prices existed in the contract. Since each vent weighed approximately 200 pounds, the use of the existing unit prices would have cost the owner  $8 \times 200 \times \$40$ , or \$64,000, rather than the \$88,000 authorized by change order.

# *Backcharges*

When a contractor or supplier is unable or unwilling to do the work, the owner will be forced to do it or ask some one to do it for him. In this case, the cost of this operation should be backcharged.

# *Cost Collection*

The cost to the owner for having some to do the work should equal the deduction from payments. The owner can collect the backcharge amount by either:

- 1- Owner pay for the work and later invoice the contractor
- 2- Deduct the backcharge amount from the payment due to the contractor.

## *Example of Backcharge Situation*

An employee of contract E, suffering from an extreme hangover, mistakenly drives a bulldozer over a carton of sensitive and fragile electrical instruments waiting to be installed by an electrical contractor, F. Contractor F asserts that it has no contract or legal relationship with contractor E and demands a change order from the owner covering the replacement cost of the damage items. Contract E agrees to be backcharged for the amount in question.

# *Suggested Backcharge Process*

- Notification of the Contract Manger
- Determining the scope of work that to be done
- Requesting an estimate from the party who will perform the backcharge work
- Cost estimate may be submitted on the basis of a lump-sum or unit prices, including estimated quantities.

# *REPRESENTATIVE CASE*

A painting subcontractor requested extra compensation from the project's general contractor for applying prime cost to structural steel that was supposed to be factory primed. The general contractor requested that the owner's contract manager issue a backcharge to the steel supplier for the painting contract's increased expense. While filling out the the backcharge form, the contract manager suddenly realized that the steel in question had not been purchased by the owner, but was bought by the general contractor under a recent change order to furnish and erect leave-out steel. Since the steel vendor was selected by the general contractor, the owner has no reason to invoke a backcharge. The general contractor was told to handle it's own problem without involving the owner.

*Thank You*