

Dear Clients, Colleagues, and Friends,

*Re: The Value of a Well Written Basis of Payment*

All well written bidding/contract documents contain a "Basis of Payment" section that establishes the basis on which the contractor will be paid as work is completed. A well thought out basis of payment provides benefits to all parties involved in the construction process. A few of the major benefits, especially as they apply to utility construction, include the following:

- Contractors bidding the work have a clear understanding of what is expected and how they will be paid when submitting their bid.
- Competitive bidding is encouraged. Bidders know what will be expected and can price the work accordingly.
- A good basis of payment clearly allocates risk between the Owner and Contractor. Obviously, if the basis of payment is not fair or well defined, contractors will be compelled to build "risk dollars" into their bids to account for unknowns.
- Change orders are minimized because the work is appropriately defined upfront in the bidding/contract documents.
- Work is paid for as it is completed, avoiding overpayment and creating a situation where the Owner is upside down with respect to work completed versus dollars paid.
- If unforeseen conditions are encountered, a well thought out and flexible basis of payment can, in many cases, be used to pay for the additional required work without the need to negotiate and write a change order. Avoiding change orders minimizes administrative costs to both the Owner and Contractor.
- If the contract scope is expanded, the basis of payment can provide a straightforward means to price the additional work.

The basis of payment establishes the ground rules of the contract. I've learned through many years of experience as a design engineer, the time and care taken to prepare the basis of payment will pay dividends by minimizing unknowns and clearly defining expectations. And, this will contribute to a successful project.

Until next time,

A handwritten signature in blue ink that reads 'William A. LaDieu'.

William A. LaDieu, P.E.  
Principal Engineer