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- > 47 years experience in construction management, dispute analysis & resolution
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- ➤ Fellow of AACE International, Royal Institution of Chartered Surveyors & Guild of Project Controls
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- > CCM, CFCC & PMP

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Introduction

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Introduction

• What is a Suspension of Work?

- "...a contractually allowable delay during the course of construction of a project"
- wi...the modern suspension of work clause is nothing more than a compensable delay authorized & addressed by contract"
- ✓ "The Suspension of Work clause has been labelled the administrative equivalent of a breach of contract action for delays"

Suspension of Work clauses has 2 purposes

- ✓ Negates notion contractor's only entitled to time extension for owner delays
- ✓ Administrative substitute to breach of contract action

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- Suspension of Work clause in most contracts
- Generally
 - ✓ Allows owners to suspend work for own convenience
 - ✓ Owners <u>not</u> required to justify suspensions
 - ✓ Owners required to issue suspension directives in writing
 - ✓ Contractors <u>required</u> to follow directive or risk Termination for Default
 - ✓ Contractors required to "mitigate damages"
 - ✓ Contractors entitled to recovery of time & delay damages
- **✓ But** how long suspension lasts & which party responsible for delay & damages depends entirely on terms of contract

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Introduction

- Do <u>not</u> confuse <u>Suspension of Work</u> orders with <u>Stop Work Orders if</u> working on Federal contract
 - ✓ <u>Suspension of Work</u> clause used in fixed price A/E & construction contracts (FAR 52.242-14)
 - ✓ <u>Stop Work Orders</u> clause employed in contracts for supplies, services or R&D (FAR 52.242-15)
- Many differences between these two clauses & recovery of damages under each
- Contractors <u>not</u> aware of which clause in contract may file an <u>untimely</u> or <u>invalid</u> claim

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Types & Causes of Suspensions

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Types of Suspensions of Work

- 2 types of suspensions of work
 - ✓ <u>Directed Suspension of Work</u> Written, verbal directive from owner to suspend some or all work
 - >Should be in writing but frequently given verbally
 - ✓ Constructive Suspension of Work Inadvertent action or lack of action on part of owner that causes work suspension Accidental or unintended suspension
 - "If the performance of all or any part of the work is, for an unreasonable period of time, suspended, delayed or interrupted (1) by an act of the [owner] in the administration of this contract or (2) by the [owner's] failure to act within the time specified in this contract..."

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Typical Causes of Suspensions

- ✓ Delay for convenience of owner
- **✓** Late issuance of NTP
- ✓ Delay in site availability
- ✓ Failure to respond to submittals on time
- **✓** Owner interference with work
- ✓ Delay in responding to RFIs

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- ✓ Failure to provide permits
- ✓ Inspection delays
- ✓ Delay in issuing changes
- ✓ Delay in investigating alleged DSC
- ✓ Shortage of project funding

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Why Need Suspension Clauses?

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Suspension of Work Clause Why Does An Owner Need One?

- To change common law
 - ✓ "One party cannot stop work of the other party without breaching the contract..."
- Suspension of Work clauses...
 - ✓ Prevent recovery of breach of contract damages
 - **≻**Contract abandonment damages
 - ✓ Prevent contractor from terminating contract
 - ✓ Require contractors to continue work <u>not</u> suspended
 - ✓ Limit compensable damages may not be entitled to
 - ➤ Profit
 ➤ Recovery of "avoidable costs"
 - >Extended / unabsorbed HOOH

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Operation of Suspension of Work Clauses

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Operation of Suspension Clauses

Owners

- ✓ When faced with situation that may cause delay, rework, unable to respond promptly or work non-compliant or unsafe
 - ➤Owner <u>may</u> terminate work <u>or</u> suspend all or part of work
- ✓ **If** decision is to suspend work
 - **▶**Issue written directive
 - >Clearly describe what work to be suspended
 - >Include direction on how to deal with pending procurements & material deliveries
 - >Address how to handle affected subcontractor activities
- ✓ Although <u>not</u> in most Suspension clauses, best practice is to issue "return to work order" when issue resolved
 - >Why? Records when damages started & ended

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Operation of Suspension Clauses

Contractors

- ✓ If suspension order received verbally obtain written directive or confirm receipt of verbal order
- ✓ Meet with owner to obtain clear understanding of work to be suspended
- ✓ Prepare written plan on how to comply with work suspension & provide to owner
 - ➤ Include work of subs, suppliers & vendors
- √ Track all costs arising from suspension including damage mitigation costs
- ✓ Track all suspended work on schedule to determine schedule impact

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Recoverable Damages

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Time Extension & Delay Damages

- When owner suspends work <u>no</u> guarantee contractor entitled to time extension
 - ✓ Especially if owner suspends only part of work
 - ✓ May have to prove critical path delay
 - ✓ May have to prove suspension <u>not</u> concurrent with other delays
 - >May face clause defining concurrent delay as inexcusable
- If <u>cannot</u> prove critical path delay, delay to project end date, probably <u>not</u> entitled to time extension or delay damages

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Impact Damages

- Impact damages
 - ✓ "Added expenses due to indirect results of changed work, delay, suspension or changes that are consequence of initial event..."
- Examples of impacts arising from suspensions
 - ✓ Lost productivity
 - ✓ Idle labor & equipment
 - ✓ Material escalation costs
 - **<u>> If</u>** can show suspension prevented earlier procurement
 - ✓ Increased cost of labor rates or winter work
 - ▶ If can work would have been completed before suspension
 - ✓ Field or home office overhead costs

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Impact Damages

- Unabsorbed home office overhead tests
 - ✓ Suspension not concurrent with other delays
 - ✓ Suspension on much, if not all work
 - ✓ Suspension directive expressly requires contractor remain on standby, ready to resume work promptly
 - ✓ Overhead costs increased as sole result of suspension
 - ✓ If cannot show, document delay of indefinite duration during which could not bill "substantial" amounts on work of project not suspended
 - ✓ **Not** practical to take on replacement work during suspension

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Overhead, Profit & Bonds Costs

Overhead

- ✓ Cannot apply to FOOH or HOOH as this would be "overhead on overhead"
- ✓ Can apply to impact costs
- Profit
 - ✓ Unless contract expressly disallows profit should be able to recover profit
- Bond Costs
 - ✓ On projects requiring Payment & Performance Bonds should be allowed to recover such costs

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Limitations on Recoverable Damages

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Unreasonable Delays

- Recovery of suspension damages arise from "unreasonable delays" on part of owner
 - ✓ "If the performance of all or any part of the work is, for an <u>unreasonable period of time</u>, suspended, delayed or interrupted..."
- **■** Example
 - ✓ If contract stipulates owner review & respond to submittals within 30 days & owner takes 38 days
 - ≥30 days "reasonable" & last 8 days "unreasonable"
- "Reasonable" vs "unreasonable" situation specific

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Impact to Critical Path

- If contract requires CPM schedule must document suspension impacted critical path
 - ✓ Contractor bears burden of proof of critical path delay
 - ✓ Must prove critical path prolonged as sole result of suspension
 - ✓ Delays impacting non-critical delay **not** warrant recovery of compensable delay
 - ✓ As critical path changes throughout progress of work, schedule updates must be analyzed
 - "...accurate schedule updates generated during the life of the project are better tools for delay analysis than baseline schedules..."

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Avoidable Costs

- Suspension clauses often prohibit recovery of "avoidable costs"
 - √ Term never defined in contracts
 - ✓ Results in arguments during settlement negotiations
- Example
 - ✓ Owner suspends work, does not / cannot tell contractor how long suspension will last
 - ✓ Speculates it will be "a week or so" but ultimately takes 3 months extended 1 or 2 weeks at a time
 - ✓ During negotiations owner argues contractor should have demobilized all equipment when suspension order given
 - ✓ An "avoidable cost"?

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Consequential Damage

- AIA A201, General Conditions of Construction Contract
 - ✓ "The owner may, without cause, order the contractor in writing to suspend, delay or interrupt work..."
 - ✓ "The contract sum & contract time shall be adjusted for increases in the cost & time caused by the suspension, delay or interruption..."
- Sounds reasonable, but ...
 - ✓ "The contractor & owner <u>waive claims</u> against each other for consequential damages arising out of ... this contract. This mutual waiver <u>includes</u> ...
 - Damages incurred by the contractor for <u>principal office</u> <u>expenses</u> including compensation of personnel stationed there..."
- Allows recovery of FOOH but <u>disallows</u> HOOH!

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No Damages for Delay

- Even if owner suspension directive causes delay, some contracts have NDFD clauses
 - "No claims for increased costs, charges, expenses or damages of any kind shall be made by the contractor ... for any delays ... from any cause whatsoever; provided that the owner ... may compensate the contractor for ... delays by extending the time of completion of the work..."
- Transfers risk of delay damages to contractor
 - ✓ Unenforceable in <u>9 States</u> but statutes apply to public projects, not private & not subcontracts (CA & CO)
 - ✓ Enforceable but with "exceptions" in 25 States
 - ✓ Not addressed in 6 States
 - ✓ Strictly enforced in 10 States

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NDFD Clauses - Exceptions

- 8 general exceptions to NDFD clauses
 - ✓ Must be <u>unambiguous</u> to be enforceable
 - ✓ Owner <u>waived</u> clause by previous actions
 - ✓ Delay <u>not</u> within contemplation of parties
 - ✓ Delay amounting to contract abandonment
 - ✓ Delay event <u>not</u> covered by clause
 - ✓ Delay caused by **fraud**, **bad faith** of owner
 - ✓ Delay caused by owner <u>active interference</u>
 - ✓ Clause <u>barred</u> by public policy, statutes
- Discuss with legal counsel to see if NDFD enforceable in jurisdiction

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Would Have Been Suspended, Delayed For or Interrupted By Other Cause or Provided For or Excluded by Other Provisions of Contract

- Many Suspension clauses include following language
 - "...no adjustment shall be made under this clause for any suspension, delay, or interruption to extent that performance would have been suspended, delayed, or interrupted by any other cause ... or for which an ... adjustment is provided for or excluded under any other term or condition of this contract"
- <u>Precludes</u> recovery if suspension concurrent with contractor delay or if contract has No Damages for Delay clause

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No Profit Allowed

- Federal contracts specifically disallow profit on suspension claims
 - "...an adjustment shall be made for any increase in the cost of performance of this contract (excluding profit) necessarily caused by the unreasonable suspension, delay, or interruption, & the contract modified in writing accordingly"
- Language clear, unambiguous & enforceable

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Only Original Eichleay Formula Allowed

- Federal courts & some State courts ruled only the original Eichleay formula may be used to calculate HOOH
- 8 different HOOH formulas used in North America
 - ✓ Produce a wide range of recovery using same data
 - ✓ Ran case study on 235 days of project delay case
 - **▶**Used actual accounting data from contractor
 - ➤ Delay damages ranged from \$4.3 million to \$114,000
 - ➤ Original Eichleay formula developed \$2.1 million
- Additionally, problems from perspective of owners, contractors & accountants

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Court Decisions Impacting Recovery of Damages

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Altmayer v. Johnson (1996)

- Case discussed "standby requirement"
 - "...the uncertainty of contract duration occasioned by [owner] delay or disruption...during which the contractor is required to remain ready to perform ... and [the owner's] procrastination & nonresponsiveness made the length of the performance period extremely uncertain ..."
 - ✓ "The standby test does <u>not</u> require that the contractor's workforce be idle..."
 - "...when a contractor is on standby it is effectively prohibited from making reductions in home office staff or facilities by taking on additional work...[as] it is not usually...practicable to lay off home office employees during short and indefinite delays..."
- Decision favorable for contractors

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P.J. Dick v. Principi (2003)

- Court determined Dick <u>not</u> placed on standby
 - "...because PJD was able to progress other parts of the work during the time periods it alleged it was suspended..."
- Not on standby when owner
 - "...tells the contractor work will begin again on a date certain..."
- Not on standby when
 - ✓"...the government gives the contractor a reasonable amount of time to remobilize its work force when suspension lifted..."

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P.J. Dick v. Principi (2003)

Added that –

"...standby clearly requires something more than an uncertain delay as this is a separate requirement of the case law; the implication is that the contractor must be required to keep at least some of its workers and necessary equipment at the site, even if idle, ready to resume work on the contract (i.e., doing nothing or working on something elsewhere that allows them to get back to the contract site on short notice..."

Decision not favorable for contractors

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Nicon, Inc. v. U.S. (2003)

- Contract bid & awarded
- NTP not issued due to bid protest
 - ✓ Bid protest not upheld but NTP never issued
- Contract terminated for owner convenience
- Nicon filed "termination settlement proposal"
 - ✓ Based on 288 days from contract award to T4C
 - ✓ Used modified version of Eichleay formula
 - ✓ Claim denied HOOH claim because courts demand use of original *Eichleay* formula
- Nicon appealed decision
- Appellate court ruled against Nicon

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Nicon, Inc. v. U.S. (2003)

- Appellate court ruled that –
- "...Eichleay damages are <u>only</u> available when delay causes contract performance to require <u>more time</u> than originally anticipated ... it is clear that a contractor is <u>only</u> injured with respect to indirect cost when the performance period of a contract is <u>extended</u> as a result of government caused suspension and <u>not</u> because of the suspension per se ... The Court of Claims was therefore correct in concluding that the <u>Eichleay formula</u> is only applicable in situations in which contract performance has begun"
- Decision not favorable for contractors

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The Redland Company v. U.S. (2011)

- Air Force issued NTP & on same day issued suspension directive for all work
 - ✓ Suspension lasted nearly 4 years (12/01/00 10/18/04)!
 - √ When suspension lifted, owner directed work be completed in 60 days
 - ✓ Redland completed work 449 days later!
- Redland filed suspension claim for 4 year period using Eichleay formula for unabsorbed HOOH
 - ✓ Contracting officer granted time extension for entire delay period (suspension period + later delay)
 - ✓ Did not assess LDs
 - ✓ Denied HOOH claim
- Redland appealed to Court of Claims

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The Redland Company (2011)

- Court of Claims denied recovery of HOOH during 4 year suspension
- Redland appealed to Court of Appeals for Federal Circuit
- Appellate Court acknowledged 4 year suspension but –
 Citing P.J. Dick, Nicon & Altmayer Courted to justify

 Eichleay damages contractor must prove
 - ➤Owner caused delay, suspension of uncertain duration
 - Suspension delayed end date of project or work finished on time but contractor incurred unabsorbed HOOH because early completion delayed
 - Downer required contractor to "remain on standby during the period of suspension, waiting to begin work immediately or on short notice once suspension lifted"

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The Redland Company v. (2011)

- Citing Nikon, court stressed Eichleay damages only available if delay, suspension occurs after performance of work has begun
- Appellate court ruled
 - ✓ Owner caused suspension of uncertain duration
 - ✓ Suspension delayed project completion
 - ✓ But, Redland had not started work &
 - ✓ Had not been directed to "remain on standby"
- Redland unable to recover unabsorbed HOOH
- Decision <u>not</u> favorable for contractors

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H.J. Lyness Construction v. (2015)

- Lyness leased building to GSA for 10 years
 - ✓ But building had to be renovated before lease began
 - ✓ GSA had issues with fire evacuation plan
 - ✓ Terminated Lyness for convenience
- GSA & Lyness could not agree on termination settlement
 - ✓ Lyness filed suit in Court of Claims
 - ✓ Only issue was damages owed
- Lyness sought unabsorbed HOOH using specially crafted Eichleay formula
- Why?

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H.J. Lyness Construction v. U.S. (2015)

Eichleay Formula relies on actual costs from project
 company for actual period of work

<u>Total Contract Billings</u> Total Overhead

Total Billings forxDuring Actual=AllocableActual Contract PeriodContract Periodto Contract

Allocable Overhead

Actual Days of = Daily Overhead Cost Contract Performance Allocable to Contract

Daily Overhead x Days of Owner-Caused = Home Office Overhead Owed

 Lyness terminated, <u>not</u> have actual costs for entire project necessary to use *Eichleay*

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H.J. Lyness Construction v. (2015)

- Appellate court ruled only original Eichleay formula can be used to calculate unabsorbed HOOH
- Court reiterated the 3 part test outlined by previous cases
- Court determined Lyness could not provide evidence they were required to "remain on standby"
- Lyness not allowed to recover HOOH
- Decision <u>not</u> favorable for contractors

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Current Tests for Recovery of Suspension of Work Damages

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Current Tests for Damag Recovery

- Based on Altmayer, P.J. Dick, Nicon, Redlands Company & Lyness current tests to recover suspension damages are –
 - Work on project "commenced"
 - 2. Suspension directed, otherwise caused by owner
 - 3. Delay for "unreasonable" period of time
 - 4. Suspension for "uncertain duration"
 - 5. Suspension extended contract duration or planned early completion date
 - 6. Suspension "sole proximate cause" of project delay

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Current Tests for Damag Recovery

- 7. Work would <u>not</u> have been delayed, suspended or interrupted by "any other cause"
- 8. Recovery of damages "<u>not</u> provided for or excluded" under any other provision of contract
- 9. Contractor instructed to "remain on standby, waiting to begin work immediately or on short notice once suspension lifted"
- 10. Suspension caused additional costs as contractor prevented from completing on time or earlier & prevented from billing work to support HOOH
- 11. Contractor unable to take on other work during suspension period
- 12. Extended, unabsorbed HOOH calculated using original Eichleay formula

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How Can Contractors Protect Their Right to Collect Suspension Damages?

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Recommendations for Contra

- Review suspension directive
- Understand exact scope of work to be suspended
 - ✓ Failure to do so <u>may</u> result in suspending more work than owner directed &
 - ➤ Caused self-imposed delay
 - **▶** Caused concurrent delay
 - **➤**Caused self-imposed damages
 - ➤ Caused unintended impacts
- Avoidable costs, concurrent delay & contractor caused impact not recoverable
- If <u>not</u> understand work to be suspended meet with owner to obtain full understanding

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- Obtain suspension directive in writing from owner or authorized representative
 - ✓ If receive verbal directive write to owner same day
 - >Obtain written directive to suspend work
 - >Ask for estimate of suspension period
 - ► Ask if owner wants contractor to "remain on standby"
 - ➤If response is "yes" HOOH <u>may</u> be recoverable
 - ✓ If response is "no" start preparation of plan to demobilize from site
 - ✓ If owner <u>not</u> respond within 1 day, provide written notice – "in absence of response" will demobilize within few days
 - ➤ At sole expense of owner + remobilization to site later

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Recommendations for Contractors

- Regardless of owner direction prepare 2 plans
- Hot Standby
 - ✓ What work will continue during suspension
 - √ How remobilize labor & equipment to work not suspended
 - ✓ Labor productivity impacts of "work arounds"
 - ✓ Cost of labor & equipment relocated or idled
 - √ Costs from subs, vendors, suppliers & procurement activities
 - √ Other impact costs
 - ✓ Remobilization costs when suspension lifted
 - √ Overhead, profit & bond costs
- Prepare narrative with cost & schedule impact estimates

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Cold Standby

- ✓ Cost of demobilizing all labor, equipment, field trailers, etc.
- ✓ Cost of continuing security for site & materials stored on site, materials & equipment storage at offsite facilities
- ✓ Cost to remobilize when suspension lifted
- ✓ If new labor required when suspension lifted include new learning curve, productivity losses, safety training, etc.
- ✓ Include costs for subs, vendors, suppliers, etc.
- Prepare narrative with cost & schedule impact estimates

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Recommendations for Contractors

- Compare costs & schedule impacts of both suspension plans
- Determine which plan most cost effective
- Submit both plans to owner along with cost effectiveness analysis

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- Meet with owner, discuss both plans
 - ✓ Discuss both plans in detail so owner fully understands each plan
 - ✓ Owners must understands what costs are relatively firm & which costs are SWAGs
 - ➤ Including what factors may influence costs + or -
 - ✓ Important that owner leaves meeting with understanding neither plan has firm fixed cost & both are only estimated costs
- Make certain owner fully understands cost & schedule impact of suspension
 - ✓ Incentivize owner to resolve suspension issue

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Recommendations for Contractors

- Obtain written decision from owner which plan to implement
 - ✓ After meeting request written decision from owner

 > If owner gives verbal directive, ask for decision in writing
 - ✓ If owner <u>not</u> agree to provide decision in writing, send following letter

"Pursuant to our meeting of this date, we confirm that you have directed us to remain on hot standby. Accordingly, we will start implementation of the hot standby plan you approved within 48 hours. We will track all cost & time impacts in accordance with the approved plan & once the suspension order is lifted we will submit a change order proposal for approval."

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✓ If owner reluctant or refuses to make decision, send following letter

"Pursuant to our meeting of this date, <u>due to your lack of direction</u>, we intend to implement the <u>hot standby plan</u> as this plan mitigates your damages more than the cold standby plan. <u>Unless directed otherwise in writing</u>, we will start implementation of the hot standby plan within 48 hours. We will track all cost & time impacts in accordance with the plan & once the suspension order is lifted, will submit a change order proposal for approval."

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Recommendations for Contractors

- Implement suspension plan
- Follow plan as closely as possible, track <u>all</u> costs (direct, indirect, impact & time related costs) & schedule impacts
 - ✓ Instruct subcontractors, suppliers, vendors, etc. to do same
- Once suspension directive lifted, compile all costs (from all affected parties) as soon as possible
- Submit cost to owner as proposed change order
- Negotiate change order on basis of actual cost & schedule impacts arising from agreed plan

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Advantages for Owners

- Owner has opportunity to
 - ✓ **Participate** in planning activities during suspension
 - ✓ Mitigate own damages arising from suspension
- Owner may require submittal of cost & time impacts during suspension period
 - ✓ Similar to T&M change order
- Owner able to track activities ongoing during suspension
 - √ Few surprises when cost & schedule impacts submitted at end of suspension
- Able to review & settle damages on basis of documented damages

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Conclusion

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Conclusion

- Recovery of damages under Suspension clause not foregone conclusion
 - ✓ More problematical than contractors believe
 - √ Tests for recovery of damages more complicated than
 in past
- Unlikely owners will include "remain on standby ready to go back to work promptly" when issue suspension directive
- Contractors must learn how to protect rights to recover damages resulting from suspension
 - ✓ Or face risk of <u>not</u> being able to recover damages!

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