



September 2, 2008

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SUBJECT: **Project Delivery Memo #08-02 – Asphalt Cost Price Adjustment**

Purpose and Direction

Background: At this time two years ago, an asphalt price adjustment provision was implemented for multi-season projects. Because of the volatility of the price of liquid asphalt that occurred during the summer months preceding, it was determined that an adjustment provision was needed in order to minimize risk to the contractors, and encourage a continuation of the competitive bidding environment. Working with the paving industry, and looking into what other states had done regarding cost adjustments, the current specification was developed.

As part of the performance audit completed in 2007, one of the findings suggested that a cost adjustment provision be applied to all projects. At that time, the price of liquid asphalt had been stable for more than a year. Working with the paving industry, it was mutually determined that no change was needed to the current provision at that time, although it would continue to be evaluated.

Beginning in March of 2008, the price of liquid asphalt started to rise dramatically. In addition, there were issues among some asphalt suppliers that impacted the available supply of liquid asphalt for some contractors. The increase in price during the paving season and the supply problems hurt a lot of companies that had successfully bid the single-season projects. The contractors involved in the multi-season projects (those that have the price adjustment provision), were better protected from these issues because of the cost adjustment provision. This situation has led to consideration of changes to the price adjustment provision.

Types of Projects Affected: The Asphalt Cost Price Adjustment provision will be applicable to all projects with HMA, regardless of their duration. Adjustments will be applied when the variation in selling price of liquid asphalt from the base price exceeds +/- 5%. The selling prices will be checked and averaged twice a month and posted on the Construction Office website.

Direction: This change is being implemented as a change to the current GSPs (04044.GR5 and 04054.GR5). In addition, the Asphalt Binder Monthly Cost Index that is posted on the Construction Office website will be reformatted to reflect price averaging twice monthly. The need for the provision will continue to be evaluated in conjunction with industry associations.

Value in Making the Change: This change is needed to provide protection against some of the uncertainties of cost increases and to maintain the competitive bidding

environment. This provides for a better risk profile for both contractors and WSDOT. Without this change, HMA paving contractors will be reluctant to bid single-season projects, or bids will include the risk of uncertainty based on the occurrences of this year.

Action Requested

Project Development

Use the revised GSP 04044.GR5 and 04054.GR5 and bid item for "Asphalt Cost Price Adjustment" in contracts that are scheduled to be advertised after September 2, 2008, that contain HMA paving. A copy of these GSPs is attached.

Guidance for estimating the amount to be included in the proposal is provided on the HQ Strategic Analysis and Estimating Office at the following web address:

<http://www.wsdot.wa.gov/Projects/ProjectMgmt/RiskAssessment/Information.htm>

Contract Ad and Award

Add the GSPs and bid item by addendum to qualifying contracts currently advertised for bid.

Construction

Projects that are currently under contract that do not have the asphalt cost price adjustment will not be eligible to incorporate this provision.

Projects that are currently under construction that contain an asphalt cost price adjustment provision at execution must adopt the use of the new Asphalt Binder Reference Cost listing that is posted on the website twice monthly at:

<http://www.wsdot.wa.gov/biz/construction/AsphaltIndex.cfm>.

Adjustments will be made based on the most current reference cost for Western or Eastern Washington as posted on the above website prior to the progress estimate cutoff date. For example, progress estimates on the 5th of the month would use the last reference cost posted for the second half of the previous month; progress estimates on the 20th of the month would use the reference cost posted for the first half of the current month (1st through the 15th). The formulas for calculating the adjustments, including the +/- 10% variation, will remain unchanged. A no-cost change order is needed to document this change.

JCL:jrs
Attachment

Cc/att:	Linea Laird	Dave Mounts
	Pasco Bakotich	Ruth McIntyre
	Megan White	Region Project Development Engineers
	Tom Baker	Region Construction Engineers
	Aaron Butters	Region Construction Trainers
	Tim Smith	Region Materials Engineers
	Jeff Carpenter	Region Design Trainers
	Ken Walker	

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(September 8, 2008)
Asphalt Cost Price Adjustment

The Contracting Agency will make an Asphalt Cost Price Adjustment, either a credit or a payment, for qualifying changes in the reference cost of asphalt binder. The adjustment will be applied to partial payments made according to Section 1-09.9 for the following bid items when they are included in the proposal:

- "HMA Cl. ____ PG ____"
- "HMA for Approach Cl. ____ PG ____"
- "HMA for Preleveling Cl. ____ PG ____"
- "HMA for Pavement Repair Cl. ____ PG ____"
- "Commercial HMA"

The adjustment is not a guarantee of full compensation for changes in the cost of asphalt binder. The Contracting Agency does not guarantee that asphalt binder will be available at the reference cost.

The Contracting Agency will establish the asphalt binder reference cost twice each month and post the information on the Agency website at: <http://www.wsdot.wa.gov/biz/construction/AsphaltIndex.cfm>. The reference cost will be determined using posted prices furnished by Poten & Partners, Inc. If the selected price source ceases to be available for any reason, then the Contracting Agency will select a substitute price source to establish the reference cost.

The base cost established for this contract is the reference cost posted on the Agency website for the period immediately preceding the bid opening date.

Adjustments will be based on the most current reference cost for Western Washington or Eastern Washington as posted on the Agency website, depending on where the work is performed. For work completed after all authorized working days are used, the adjustment will be based on the posted reference cost during which contract time was exhausted. The adjustment will be calculated as follows:

No adjustment will be made if the reference cost is within 5% of the base cost.

If the reference cost is greater than or equal to 105% of the base cost, then
Adjustment = (Current Reference Cost – (1.05 x Base Cost)) x (Q x 0.056).

If the reference cost is less than or equal to 95% of the base cost, then
Adjustment = (Current Reference Cost – (0.95 x Base Cost)) x (Q x 0.056).

Where Q = total tons of all classes of HMA paid in the current month's progress payment.

"Asphalt Cost Price Adjustment", by calculation.

"Asphalt Cost Price Adjustment" will be calculated and paid for as described in this section. For the purpose of providing a common proposal for all bidders, the Contracting Agency has entered an amount in the proposal to become a part of the total bid by the Contractor.

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04054.GR5

(Asphalt Cost Price Adjustment)
(September 8, 2008)

Include in all projects containing Hot Mix Asphalt. Must include **04044.GR5** and **standard item 5837**.

To determine the Engineers Estimate for this bid item, refer to the guidance at:

<http://www.wsdot.wa.gov/Projects/ProjectMgmt/RiskAssessment/Information.htm>

Washington State Department of Transportation

Asphalt Binder Reference Cost

2008 & 2009		EASTERN	WESTERN
SEPTEMBER 2008	1 - 15		
	16 - 30		
OCTOBER 2008	1 - 15		
	16 - 31		
NOVEMBER 2008	1 - 15		
	16 - 30		
DECEMBER 2008	1 - 15		
	16 - 31		
JANUARY 2009	1 - 15		
	16 - 31		
FEBRUARY 2009	1 - 15		
	16 - 28		
MARCH 2009	1 - 15		
	16 - 31		
APRIL 2009	1 - 15		
	16 - 30		
MAY 2009	1 - 15		
	16 - 31		
JUNE 2009	1 - 15		
	16 - 30		
JULY 2009	1 - 15		
	16 - 31		
AUGUST 2009	1 - 15		
	16 - 31		
SEPTEMBER 2009	1 - 15		
	16 - 30		
OCTOBER 2009	1 - 15		
	16 - 31		
NOVEMBER 2009	1 - 15		
	16 - 30		
DECEMBER 2009	1 - 15		
	16 - 31		

The asphalt binder reference cost is established by WSDOT from the selling price of asphalt cement furnished by Poten and Partners, Inc. for the Pacific Northwest. The Western reference cost is based on the selling price for the Seattle, Washington area. The Eastern reference cost is based on the selling price for the Eastern Washington area including Northern Idaho. The Asphalt Binder Reference Cost will be the average of the selling price for each Friday during the specified period.



**Washington State
Department of Transportation**

For more information, please call the WSDOT Construction Office at (360) 705-7822
or visit <http://www.wsdot.wa.gov/biz/construction>

9/8/2008