
From: Susan Clark
Sent: 11 May 2008 22:36
To: Graeme Bissett (external contact)
Subject: RE: Deal evaluation URGENT

Graeme

Seems reasonable.

Susan

-----Original Message-----

From: Graeme Bissett <graeme.bissett@██████████>
Sent: 11 May 2008 20:37
To: Steven Bell <Steven.Bell@tie.ltd.uk>; Dennis Murray <Dennis.Murray@tie.ltd.uk>; Willie Gallagher <Willie.Gallagher@tie.ltd.uk>
Cc: Colin McLauchlan <Colin.McLauchlan@tie.ltd.uk>; Mike Connelly <Mike.Connelly@tie.ltd.uk>; Susan Clark <Susan.Clark@tie.ltd.uk>
Subject: RE: Deal evaluation URGENT

I think the final position looks like this :

- Start at £508M, being £476m base cost and £32m risk contingency.
- Add the incent bonus of £4.8m to the base cost
- Reduce the roads risk provision by £0.5m to the capped risk of £1.5m
- Gives £512.3, being £480.8m base cost plus £31.5m contingency
- The evaluated risk reductions are :
 1. Waiver of pre-Close claims £1.7m (see below)
 2. 2-4 week tie management cost saving due to imminent signing say £0.6m
 3. Impact of restriction to 8 weeks roads related prolongation £1.2m
 4. SWAG against contamination and design / consents delay c£0.6m
 5. Total £4.1m
- Suggest we limit this saving to one-third against Phase 1A or £1.35m for prudence, this should be applied against the elements of the risk contingency in detail in due course, reducing the risk contingency from £31.5m to £30.2m (ie after the £1.3m and the £0.5m reinstatement cap effect)
- Gives Phase 1A outturn at £511.0m, being base cost £480.8m plus £30.2m risk
- Leaves a calculated possible further risk reduction of £2.8m against the £3.2m Phase 1B exposure - meaning that this risk is covered by potential saving of 90% in other Phase 1A contingency

We can ignore the loss of the insurance reserve as it has not been counted as a cost cushion in the previous calculations.

In summary, base cost rises by £4.8m incent bonus, offset by risk reductions of £1.8m, leaving a £3m increase in the headline budget to £511m. The Phase 1B demobilization risk of £3.2m is offset by potential further risk reduction which we have not recognized on the grounds of prudence. The payment is in any case only payable if 1B does not proceed, in which case the demob payment is one of a number of 1B costs to be addressed, including £3m of design already sunk and any additional design / UD work in 08/9.

SDS remains a wild card. There is £0.4m floating contingency in the risk provision and any additional stress could be notionally offset against the savings offset against 1B –if we said the calculated risk on 1B was £1.8m or 50% of the demob sum, we have a further £1 m to play with, although hopefully we will not be going near ransom sums of this scale to SDS.

Please confirm positively this evening that you agree to this overall scenario – the “£511 m model” – and I will bring all our internal documents into line and engage with CEC.

Regards
Graeme

Graeme Bissett

m : +44 ([REDACTED]

From: Graeme Bissett [mailto:graeme.bissett@[REDACTED]]

Sent: 10 May 2008 14:16

To: 'Steven Bell'; 'Dennis Murray'

Subject: Deal evaluation

Guys, help me with the valuation of the wins please :

On Thursday the evaluation from Dennis was :

1. Elimination through immediate contract close of a delay risk relating to tie management costs – 2–4 weeks at £770k per 4–week period, so £0.4m–£0.8m [effectively new Condition 3]
2. Waiver of pre–close claims – late start of initial activities (eg Caley Ale House) BBS prelims at £233k pw, say 2 weeks – £0.4m ; disruptive handover from mob to construction, 6 weeks at £75k or £0.5m ; late decision to progress A8 VE underpass £0.8m ; total £1.7m [Condition 5/6]
3. Reduction in tie exposure to road reinstatement costs – we had allowed £2m, but BBS take risk above £1.5m so a £0.5m reduction in risk contingency.[Condition 7]

The aggregate of these is £2.6m – £3.0m. I described this as £2m–£3m in the draft report on the final deal circulated on Thursday.

The note from Dennis last night says (my interpretation) :

- The general delay allowance is £6.5m and one–third or £2.1m relates to roads (based on what ?). Now our worst exposure for roads related delay is 8 weeks at BB prelims of £112k pw (why different from £233k pw noted at 2 above ?) or £0.9m. So we can reduce the allowance from £2.1m to £0.9m, or £1.2m. [Additional element of Condition 7 calculation above]
- Contamination risk allowance is £3.2m, of which roads related is £1.1m (please confirm). This is then linked to £1.5m / £2m and I’m afraid I’m lost from there.

We do not seem to have attached any value to Condition 8 on IFC release ?

Each piece of the final terms is being crawled over by CEC Legal including these commercial assessments.
At the moment I am trying to accommodate them rather than "leave it to us".

As I say, help. Once we are clear, we also need to assess the final budget number at 508 + ?.

Regards

Graeme

Graeme Bissett

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