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Our Ref: PRO.Infraco.691

Date: 19<sup>th</sup> July 2007

Dear Sirs,

**Edinburgh Tram Network - Activities to Deliver Contract Award Recommendation**

Further to our recent discussions and in support of the programme that we have provided to you setting out the steps to the Conditional Contract Award Recommendation and Contract Award we write to confirm the approach proposed.

Firstly we confirm your agreement to the programme that we have proposed and thank you for your continued support for the Project.

We enclose details of the proposed activities and steps required to deliver this programme "Activities to Deliver Contract Award Recommendation", as previously shared informally with you. You will see from paragraph 3.3 that the programme is dependent on your continued support and the provision of the information listed. Your timely provision of this information will greatly assist us in achieving our programme. We will contact you shortly to agree dates for the delivery of this information.

Please provide your formal confirmation of your agreement to the enclosed by return.

Yours faithfully,



Geoff Gilbert  
Project Commercial Director

## EDINBURGH TRAM PROJECT

### ACTIVITIES TO DELIVER CONTRACT AWARD RECOMMENDATION

#### 1.0 Introduction

- 1.1 This paper explains the steps set out in the programme provided to bidders. It does not qualify in any way the principles set out in the Infraco ITN.

#### 2.0 Background

- 2.1 The strategy for the delivery of the Edinburgh Tram Project is in essence twofold:-
- Creation of a single point delivery by Infraco via the novation of the designer SDS and the tram vehicle provider Tramco to Infraco.
  - The de-risking of the price for the works by getting sufficient design done in advance of Infraco recommendation so that risk pricing by bidders for scope and performance is minimised.
- 2.2 Infraco bids were received in January 07 and then updated to take into account further information and updates submitted in early May 07.
- 2.3 For the following reasons the programme to making a recommendation on the selected Infraco and Tramco bidders has been delayed by:-
- Delays to the design programme resulting in the outputs required for pricing due to their difficulty in obtaining decisions from Project stakeholders. We have intervened now to bring about clear decision making.
  - Political uncertainty over the future of the Project following the outcome of the national elections.
- 2.4 Our programme shows that we intend to conclude tender evaluation and negotiations by 28<sup>th</sup> August to enable us to put a conditional contract award recommendation to our Project Board by 25<sup>th</sup> September. This recommendation would be conditional on a subsequent successful conclusion to:-
- Facilitated Negotiations (resolution of the final Tramco/Infraco and SDS/Infraco alignment issues)
  - Negotiations for the Option price for Phase 1b (CEC are still keen to deliver this as part of the scheme and are looking at funding options)
  - Design due diligence

#### 3.0 Activities To Deliver the Objectives and Programme

- 3.1 To deliver these objectives so that we can conclude the evaluation and make a recommendation to the programme outlined above we need to have bids that:-
- Don't contain significant pricing uncertainty and risk allowances
  - Have a clear and agreed basis for adjustment in respect of
    - Significant areas of design uncertainty e.g. roads, pavings and drainage
    - Significant quantity changes arising from completion of detailed design

- Significant changes arising from completion of due diligence on agreed critical design items
- VE items not fully incorporated into updated bids
- Contain acceptable technical proposals i.e.
  - Methodologies for the main elements of the works
  - Acceptable proposals for trackform
- Resolved contract terms that do not compromise the strategy
- Deliver alignment between Infraco and Tramco in respect of commercial, legal, technical and programme interfaces
- Project specific proposals for the project management team, project resourcing, programme and technical aspects (including system design and integration) that demonstrate bidders capability to successfully deliver the Edinburgh Tram Network.
- An agreed baseline methodology for delivering the on street works that is agreed with CEC.

### 3.2 The steps to achieve this are:-

- To conclude negotiations on the contract terms. These will be dealt with on a priority to tie's strategy basis.
- For Infracos to provide prompt and full responses to the queries that are raised by tie.
- To update bids for:-
  - The further design information to be provided as the attached schedule
  - Updated Employer's Requirements to be provided week commencing 16<sup>th</sup> July
  - Accepted trackform
  - Agreed VE items, to the extent that we can but particularly in respect of bidders ideas in respect of significant structures and bidders own proposed VE items.
- Agree the proposed methodologies for delivering the on street works with CEC. tie will facilitate these discussions in order that there is equal treatment of bidders. (Proposals should start with a proposition for maximum productivity within the constraints specified in the ITN)
- Resolve the significant interface issues between Tramco and Infraco. The steps being:-
  - Tie provide an interface matrix for Infracos to confirm and/or amend so that they are satisfied that there are no gaps
  - Tie/Infracos/Tramcos review and resolve any significant issues arising
  - Agree resolutions to the identified gaps
- Agree the basis for finalising the 1b option, including how any VE proposals are dealt with, discounts for concurrent working and a formula for adjusting the price for a deferred commencement (i.e. commencement later than July 09)
- Final Bid Proposals – Infracos opportunity to review and maximise the competitiveness of pricing and margins to improve their prospects for success.

### 3.3 To deliver this programme tie requires:-

- Infraco bidders support to the steps outlined above.

- Details of the items bidders believe are required to enable them to deliver design due diligence for the price and performance risk critical issues.
- Proposals for mobilisation and advance works assuming the placing of mobilisation and advance works contracts in October 07.
- Confirmation of the design work that bidders do not believe PB should continue with.

#### 4.0 tie Confidence in the Tram Scheme

4.1 Following the recent period of political uncertainty we are now confident that that this scheme will proceed given the overwhelming vote in favour of the scheme in the Scottish Parliament last week and the Minister's subsequent confirmation of funding. This confirms the £60m funding allocated by the last administration to take scheme to contract award stage and undertake certain advance works and early mobilisation of Infraco and Tramco contractors. Furthermore, the minister has privately confirmed to our tie chairman that full funding will be allocated to our scheme.

4.2 Our confidence that the full scheme will proceed is evidenced by:-

1. The commencement of physical utilities diversions on Monday 9<sup>th</sup> July
2. The conditional contract award recommendation that we will make for both Infraco and Tramco in September, rather than a more nebulous preferred bidder nomination that we were previously proposing
3. The proposed award of Advance Works and Mobilization Agreements to the recommended Infraco and Tramco in early October
4. The fact that we have pulled forward our award recommendation, contract award and commencement of work to improve the position for our bidders

4.3 All of this commits the project to significant expenditure which we would not do if we did not believe the scheme can be viable."