

tie LIMITED/TEL

TRAM PROCUREMENT PROCESS

SENIOR MANAGEMENT MEETING

DATE: 11 APRIL 2006

VENUE: DLA PIPER, COLLINS HOUSE, RUTLAND SQUARE, EDINBURGH

TIME: 9:30am until 11:00am

Attending:

David Mackay - TEL  
Neil Renilson - TEL  
Michael Howell - tie  
Graeme Bissett - tie

Ian Kendall - tie  
James Papps - PUK  
Andrew Fitchie - DLA Piper  
Sharon Fitzgerald - DLA Piper

MH chaired the meeting and introduced the agenda set out in his e-mail of 10 April 2006 to all parties. MH invited IK to report on PQ Submissions for Infraco Contract.

IK reported that five submissions had been received by the closing time on Friday, 7 April. The documentation was still under review prior to formal evaluation by the tie nominated team. Initial review revealed a number of clarifications required of candidates and these would be pursued and closed out in the next few days. **IK stressed the confidential nature of the information to the meeting.** Submissions had been received from:

Amec-Spic

Siemens

Bombardier

M-Pact

Bilfinger & Berger

IK reported in brief on the characteristics of each submission and outlined **tie's** established process for taking between 3-5 candidates to ITN stage. Two candidates had indicated their intention to team with other parties. IK summarised how the response reflected the contracting market position *vis a vis* light rail schemes where heavy losses had been taken on English projects and business acquisition activity was focussed on other less complex projects. This trend was reinforced by private sector questions over political will to fund ETN.

DM asked if there were any notable absentees. IK stated that three contracting organisations had not requested PQ materials: Carillion, Balfour Beatty, Sir Robert McAlpine. Each of these organisations had cogent reasons for their non-participation which related to other corporate priorities, recent indifferent outcomes from their working in light rail scheme delivery consortia, as well as some reservations surrounding proposed ETN risk allocation expressed to **tie** at PIN stage.

In response to GB's question, IK confirmed that none of the PQ candidates had direct UK tram scheme civil engineering experience. Laing O'Rourke (M-Pact) are involved in Dublin.

MH summarised by saying that the response had not been five star. IK concurred but explained that there was potential for groupings to emerge from the candidates where some already had had previous recent co-operation on tram scheme tendering.

GB inquired how tram suppliers would fit given the separate vehicle procurement. IK stated that none of the PQ submissions had indicated any intent to seek exclusive tram supply arrangements which would be at odds with **tie's** planned process to take two suppliers to BAFO.

IK concluded that:

- there had been a genuine response, influenced by: market conditions, perceptions about funding availability and prior light rail experience;
- the potential for candidate re-configuration was already in evidence and would require careful observation;
- consistent with its public procurement responsibilities, **tie** would be using the pre-qualification process to maximise chances of an outcome which strengthened competition.

**Programme**

IK described the state of readiness of Tramco and Infraco ITN documentation and explained that a review, in particular of Infraco documentation, and approvals requirements had led to his decision to recommend 25 May 2006 as the target ITN release date for Infraco, with 25 April 2006 being retained by Tramco. This would include a "Readiness Review" (proposed and to be co-ordinated by PUK) on Infraco documentation targeted for the second week in May, followed by TEL Board and then CEC and SE approvals thereafter.

DM asked what level of confidence IK had over a new Infraco ITN release date of 25 May 2006 and cautioned against setting a new date which was then not met. This would damage the project in the eyes of Transport Scotland and CEC.

IK explained that an internal red team review by **tie** (planned for 2 May to 4 May 2006) would ensure the Readiness Review did not result in major changes being required prior to ITN. JP explained some constraints on availability of readiness review team, lead by Malcolm Hutchison.

GB asked what impact of a delay between Tramco and Infraco would be. IK explained that a staggered ITN issue had always been planned and that there was inter-dependency between tram supply contractual negotiations and Infraco bid preparation and negotiations.

NR recognised the interdependency and asked if there was advantage in having Tramco ITN go out prior to Infraco. IK explained the sequence of the procurements, with Tramco selected for Infraco BAFO candidates to use in their offer document.

MH summarised:

- Readiness Review to be co-ordinated through JP with dates in second half of May to be confirmed;
- outcome of Readiness Review would not be second guessed; discussion required on Tramco documentation inclusion;
- May Infraco ITN date was achievable but should be an internal **tie** target.

IK walked through the Programme Line items for the meeting. IK highlighted the criticality of the MUDFA commencement date to the Infraco mobilisation and overall ETN construction programme. Hence, the DFBC submission date in November was the key to maintaining service commencement date for ETN as shown in early 2011. MH confirmed with IK 18 months was current conservative estimate for MUDFA Works.

IK focused on Line Item 6, DPOFA re-negotiation and CSA. IK stated that collective effort to reach an agreed position on DPOFA adjustment had not produced a result which could be deployed. Time was required to achieve this. It was agreed that sessions would be arranged (I Kendall, N Renilson, B Campbell, A Richards and A Fitchie) to reach an agreed conclusion. DM stated that TEL wished to have the single mode incentivisation in DPOFA replaced by another structured incentive mechanism. NR stated that the modification should move DPOFA towards the operator being a contractor with premium paid for exceeding KPI standards, possibly combined with a revenue related incentive linked to overall TEL patronage. This work product was to be reviewed by DLA Piper for procurement and legal risk.

IK confirmed that work was ongoing between **tie**, TEL and TETL to settle KPI regimes for all three major contracts.

IK explained that TROs would not be finished by June 2007 since hearings could only commence in Q1 2007.

IK outlined the issues which the revised programme and pre-ITN process were intended to combat:

- bidder risk premia and contingent pricing;
- under development of technical documentation and design;
- the need to obtain stable pricing to inform the DFBC;
- early assessment of acceptance of contract risk allocation;
- the ability to judge whether 1(a) and/or (b) were affordable.

IK explained the use of the ITN Phase 1 and Phase 2 process was the alternative to recommencing the procurement and allowed **tie** to move in a way which reflected the market response now evidenced, and enhanced ability to exert reasonable control over pricing information produced for end October 2006.

The programme contained a six month delay on previous service commencement date but the meeting was comfortable that this did not clash with CEC or Transport Scotland objectives. The overlap of MUDFA and Infraco was manageable.

JP asked how reliable the pricing in October 2006 would be and if waiting for improved quality of design and technical information improved would secure a superior outcome from Phase 1 ITN submissions. IK considered that May to October with a further preliminary design release in July would give bidders a reasonable time to develop pricing and methodology. The papers distributed to the meeting (available beforehand electronically), revised programme and briefing paper plus SWOT analysis spoke to what bidders would be asked to do under the revised ITN. IK stressed again DFBC and MUDFA inter-relationship.

GB highlighted the need for co-ordination and sufficient time for approval process of all elements of the procurement. The meeting concurred with this view.

DM stressed the need for careful thought before committing to ITN release dates and NR agreed with this. DM stated that the team should consider the anecdote "if you need a bath, take a deep one" when assessing programme adjustment.

#### **tie's organisation**

MH confirmed that Trudi Craggs would be acting as **tie's** internal co-ordinator for procurement related workstreams. Dave Ramsay would be in charge of managing construction programme. Willie Fraser would be in charge of budgetary controls and consultant performance. Barry Cross would act as CEC liaison and third party agreement and land acquisition manager.

IK explained these staff positions were to see the tram project through the final stages of parliamentary process, the procurement and contract placement phase and the design, development and construction periods.

Meeting closed at 11:00am.