

1 Client Relations

1.1 *tie*

My weekly meeting with Willie Gallagher was especially constructive and dealt with a variety of current project issues.

On the subject of SDS performance on the production of detailed design packages Willie was very impressed that we had achieved 96% of the target of 300 detailed design deliverables to be submitted to *tie* by the 28 January 2008 Infraco procurement milestone. He acknowledged that this had been a significant achievement especially as that target had been set as long ago as 03 July 2007.

On the subject of Infraco Financial close Willie told me that a date of 13 February has now been set for the issue of a Letter of Intent to BBS. The next Tram Project Board is scheduled for that date. A ten day cooling off period will then start and Infraco contract award is set for the end of February. Willie suggested that *tie* relations with BBS are on a firm footing and he appeared confident that the target could be met. Willie is actually due to be on leave from 14 February through 02 March.

We also discussed PB commercial matters. Earlier in the week I had had to adopt a firm position on the outstanding signature of the Legal Agreement for the settlement of the PB Claim for Prolongation. I had stated to Damian Sharp that I wasn't prepared to attend any more meetings on novation until such time as the Agreement was signed. Willie adopted a conciliatory approach at our meeting and committed to signing the Agreement on Monday next week. All he asked for was my continuing commitment to closing out the negotiations on novation: - something I was happy to provide.

Willie then turned to the future and again suggested that PB should be working with *tie* on the initial studies for expansion of the Tram Network beyond that which is to be contracted with BBS at this time. This is something which we have agreed we can consider over the next month once the immediate priorities prior to Infraco Contract Award have been addressed.

The most important task to be completed remains the definition of the BBS Construction programme. We have been working closely with Steven Bell on the meshing of the SDS Programme with the Construction Programme. Willie was keen to discuss the matters arising from this exercise so I took the opportunity to emphasize the need for CEC to commit wholeheartedly to the initiative as well. With the most significant remaining risk being the uncertainty over the timescales for planning and technical approvals the full proactive involvement of CEC is essential for the successful conclusion of the current negotiations with BBS. Willie accepted this and we have now agreed with Steven Bell that daily meetings will be held with *tie*, PB, and CEC over the next two weeks to promote alignment between the parties.

1.2 City of Edinburgh Council (CEC)

PB is working closely with CEC to facilitate the commencement of the Technical Approvals for the roads design packages which are shortly to be submitted.

1.3 BBS

Nothing further to report on relations with BBS since BBS has been working back at base over this last week to determine its response to the issue of the revised Employer's

Requirements and also to dealing with *tie*'s legal team on the drafting of the novation agreements for the Tram Supply and SDS Contracts.

2 Commercial

2.1 Contract

2.1.1 Employer's Requirements

Following the agreement last week on a pragmatic approach to reviewing the revised Employer's Requirements PB has continued to work towards completion of the exercise for version 3.1 by Friday 08 February. *tie* has requested a special meeting on Sunday 10 February with a view to closing out the exercise. We have agreed to this.

PB has not yet been provided with a copy of the BBS Offer for the systems scope of the scheme. This had been promised by *tie* for this week with a view to PB commenting on the offer in relation to the SDS Design scope.

2.1.2 Novation

Several meetings and conference calls have taken place this week on the subject of novation. At our meeting on Tuesday a programme was agreed with a target of all outstanding issues being resolved by 11 February. In the meantime PB has been reviewing the proposed terms and conditions for the Infraco Contract to determine any potential impact on PB. Although several items of detail remain to be closed out the debate this week has highlighted two key issues which must be addressed:-

- Whilst PB is content to confirm the commitment to its obligations as defined by the SDS Agreement, *tie* must appreciate that PB is unwilling to take on additional obligations via the novation agreement which would then apply to the completion of the services defined by the SDS Agreement. The novation agreement must be drafted in recognition of PB's position.
- The refusal by PB to take on programme risk (and consequential damages) arising from the failure to secure approvals and consents in a timely manner. *tie* has stated that it has attempted to address this concern in the terms and conditions of the Infraco contract but this has not been demonstrated to PB's satisfaction.

tie now understands PB's overall position on novation and the atmosphere of the negotiations has become more cordial with *tie*'s realisation that we are determined to be reasonable but that we have genuine concerns. A conference call on Wednesday between *tie*, PB, and *tie*'s lawyers from DLA was particularly constructive. DLA is now engaged in redrafting the novation agreement with a view to addressing PB's concerns and we have been promised the updated draft on Tuesday next week.

On the subject of a separate contractual arrangement between *tie* and PB for the provision of services not subject to novation there has been little progress. I have stated that this remains an area of concern – in my view *tie* is attempting to have its cake and to eat it – and I am not convinced by DLA's proposal to extend the Collateral Warranty provisions to serve as the vehicle for a separate services agreement.

2.2 Change Requests

Change Orders have been received this week in the sum of £140,000. These form part of the set of orders to be provided by *tie* as a result of the recent agreement on £810k of change orders.

A meeting held with Halcrow on Friday to complete the detailed review of the PB /Halcrow change register confirmed that the cost-to-complete presented on the latest PSR is sufficient to cover the remaining Halcrow costs to go.

2.3 Claims for Prolongation

As highlighted above, signature of the Legal Agreement for the outstanding prolongation claim has now been promised for Monday 04 February.

Meetings have now been scheduled on Monday and Thursday next week to review with Steven Bell, the claim for additional management and supervision services recently presented to *tie*.

2.4 Cashflow

Damian Sharp has committed to clearing the outstanding AFPs for November and December as soon as possible and then to meeting with PB to review the detailed make-up of the AFP for January (due early next week). The intention is to carry out a detailed review of the content of the January AFP as this will most likely be the last submitted prior to novation. Damian is keen to reach agreement on current project status as part of the settlement of this AFP and to ensure that this accords with the position statement required as part of the novation agreement.

2.5 Contract Valuation prior to Novation

PB has continued with the preparation of the status information required for valuation of the Contract prior to novation. Valuation is on the basis of the current status of:-

- Detailed design deliverables
- Prior Approvals
- Technical Approvals
- MUDFA IFC packages

It has now been agreed that with the passing of the target date for financial close of the Infraco Contract *tie*'s preference for SDS Contract status to be defined as at a particular date – which had been 05 January – will now be modified such that status updates will be provided each week. At novation the latest update will then be used in the assessment of completion status as at novation.

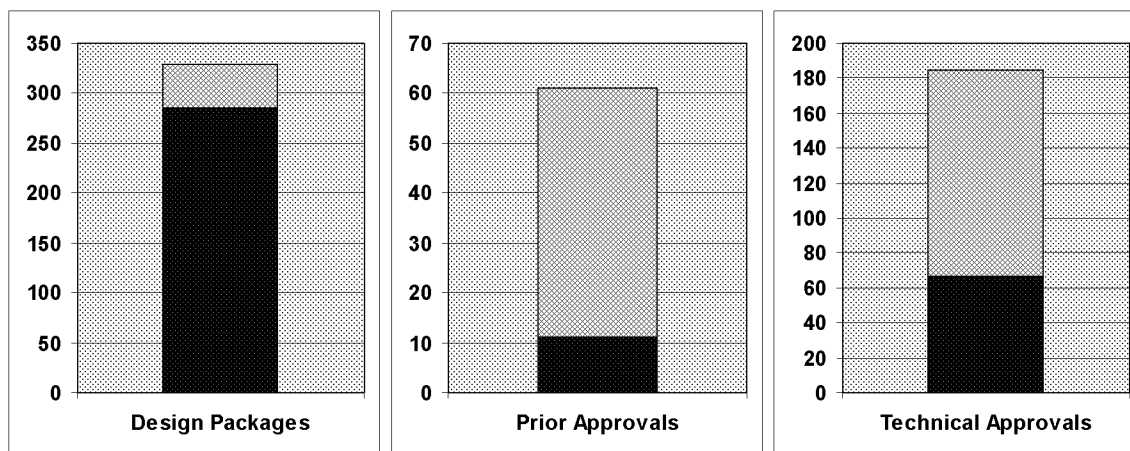
We have yet to be advised by *tie* of any changes to scope directed by *tie* prior to novation as a result of any agreement with BBS.

3 Operations

3.1 Edinburgh Tram Network

Good progress continues to be made by PB on the delivery of detailed design packages to **tie**. With 288 of the 329 packages now submitted attention is focused more sharply on securing approvals and consents. The agenda for **tie** /PB project management meetings has changed accordingly with the emphasis on the programme management required of **tie** to ensure the required approvals and consents are achieved in a timely manner.

Current status on Design Package submission to **tie**; Prior Approvals secured from CEC; and Technical Approvals secured from the Approval Bodies is as follows:-



3.2 MUDFA

Nothing further to report this week.

4 Other Issues

Nothing to report

5 Weekly Look-ahead

- Monday. Meeting with Willie Gallagher to finalise signatures on the Legal Agreement for the PB Prolongation Claim.
- Thursday. Weekly meeting WG /SCR
- Friday. Critical Issues Meeting. (D Crawley, **tie**, Chair)
- tba. Next Novation Planning meeting with **tie**
- tba. Scope of work definition meetings with **tie** and BBS – to define any changes to design scope post novation
- Daily until 08 February. Employer’s Requirements review meetings with **tie**

6 Timetable to Infraco Contract Award - Update

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|--------------------------|---|
| ▪ 13 February. | Final Report to Council from tie . |
| ▪ 13 February + 2 weeks. | Novation of the SDS Contract. |
| ▪ 13 February + 2 weeks. | Infraco contract award. |