

From: Stewart McGarrity
Sent: 21 September 2005 16:01
To: Ian Kendall; Suzanne Waugh; Barry Cross; Graeme Bissett; Gerry Henderson
Cc: Pat Diamond
Subject: Cost Estaimtes

Table below lays out the history of our capital cost estimates. Please read the notes below.

	A	B	C	D	E
£m	PFC Network	PFC Model Line 1	PFC Model Line 2	IOBC May 05	SE Updates June 05
Line 1	243.0	243.0	-	243.0	
Line 2	278.5	-	278.5	278.5	
Common running and Nwork Enhance (latter not in PFCs)	(48.1)			(38.7)	
2003 Costs Ex OB and Inflation	473.4	243.0	278.5	482.8	482.8
Optimism Bias		31.1	42.4	n/a	67.6
2003 Prices Including OB		274.1	320.9	482.8	550.4
Inflation % PA		3.75%	3.75%	3.75	6.00%
Inflation		54.5	63.9	98.4	164.3
Nominal costs Including OB		328.6	384.8	581.2	714.7
Excluding OB		291.3	334.0	581.2	634.0
Inflated OB		37.3	50.8	n/a	80.7
Including OB		328.6	384.8	581.2	714.7

- The famous £473.4m for the network was derived from the two PFC documents as above but does not appear in either of the PFCs for the individual lines.
- The actual PFC documents themselves clearly label the cost estimates as Q2 2003 and do not show inflated numbers. However Opris working for Arup for the Parliament crawled over the models we had showing Nominal cost estimates for each line. They commented at length on the NPV calculations in the Arup report. Columns B and C above summarise the models which Opris examined. **These are on our website for anyone to see.**
- The IOBC is not public but SE/CEC have examined in depth. OB is not included in the IOBC modelling and the inflation assumptions are consistent with the PFC models as above.
- In June we prepared a segmented analysis of the costs of the network for SE (the "Procurement Options Report" then the later "ETN Scope and Funding Summary"). A higher annual inflation figure was used to estimate the nominal costs for that document as in column E.

More to come on practice and guidance (including situation on other projects) wrt inflation.

Stewart McGarrity
Project Finance Director

.....
 tie limited
 Verity House
 19 Haymarket Yards
 Edinburgh EH12 5BH

Tel: +44 [REDACTED]
Fax: +44 [REDACTED]
Mobile: +44 [REDACTED]
Email: stewart.mcgarrahy@que.ttd.uk

delivering transport projects