

INFRACO DEAL

1 Financial Negotiating Parameters

Project Estimate Budget for Infraco is £206.8m

Built up of:-

	£m
BBS Core Bid	208.7
Infraco normalisations	17.8
Sub Total	226.5
Less Identified VE	(13.5)
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Sub Total	213.0
Less VE to find	(8.6)
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Total	204.4
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1. excludes £1m for cctvs at junctions

Available to negotiate

	£m
Contingency	2.0
Pre Financial Close risk allowances	14.5
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Total	16.5
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We need to reserve a proportion of the contingency and risk to uncertainties in the things that are outside the deal. Reserve £6.5m for this. This leaves up to £10m for BBS to take pricing risk for the scope and risks that are included in the deal.

2 Proposition

The proposition is that:-

- BBS agree a contract sum of £226.5m for delivering the Scope
- Agree to deliver a minimum VE saving of £19.2m (£13.5m Identified VE + £5.7m VE to Find)
- Plus £3m to £10m for pricing risk

This means that contract sum would be between £210.3m and £217.3m

At £217.3m ties contingency and risk would be reduced to £3.6m (£6.5m less tie's £2.9m share of VE to find). At £210.3m ties contingency and risk would be increased to £13.5m (£6.5m plus £7m of £10m allocated to negotiation)

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From Infraco perspective the issues are:-

1. The level of risk in the areas where designs are uncertain or they have not priced – highways, structures, earthworks and Infraco normalisations
2. Deliverability of the Identified VE - £13.5m
3. Swallowing their share of the VE to find - £5.7m

In respect of structures there is little risk

In respect of Highways there is £5m in normalisation available to cover pricing risk (excluding the £6.3m assigned to Piccardy Place)

For earthworks the real risk is in the unknowns which are not their risk (subject to agreeing GBR)

The £13.5m for identified VE is our assessment of the likely VE saving achievable (including £2.5m in respect of NR Immunisation risk).

The acceptability of the level of pricing risk premium therefore depends on

- a) The level of further reductions BBS are prepared to offer off their margins and risk allowances – say £1m to £2m
- b) Taking a hit on £5.7m of VE to find
- c) Their confidence in being able to deliver £13.5m Identified VE

The likely settlement range is therefore £4.7m (£5.7m - £1m further reductions and 100% confidence in being able to deliver £13.5m) and £10m (£4.7m + 1/3 of £13.5m i.e. a 66% confidence in delivering £13.5m)

To sweeten the proposal and reduce BBS pricing risk exposure the following are included in the contract price as provisional to be firmed up once designs are available:-

- Piccardy Place (provisional £6.3m including utilities)
- Minor utilities diversions
- Scottish Power connections at Depot and IPR

3 Scope

The Scope to be delivered for the negotiated price is:-

- Programme
 - delivery into revenue service by 11 Feb 2011
 - delivery in accordance with the currently negotiated On Street Construction Works Methodology
- Technical scope
 - To V3 ERs and agreed compliance matrix
 - Civils to SDS designs (subject to Exclusions from the deal)
 - Systems, including track to BBS technical proposals (agreed as compliant with ERs)
 - Excluding structure S33
 - To current outline design for Depot
 - BBS take design development risk
- Terms and Conditions – as current draft subject to resolution of remaining issues to agreed programme as the Issues List (as at

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12/12/07), no revisiting of closed issues, and in accordance with SDS Novation Plan.

- All other qualifications withdrawn

4. Exclusions From the Deal

- Utilities diversions (other than minor services diversions)
- Forth Ports area – the extra over cost of the design for finishes and structures, including Lyndsay Road
- Extra over cost of the revised design at EAL