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**From:** Steven Bell  
**Sent:** 08 August 2011 16:49  
**To:** Alan Coyle; csmith@hg-group.co.uk; Findlay, John  
**Cc:** Dennis Murray  
**Subject:** FW: Onstreet Target Price

<b>Tracking:</b>	<b>Recipient</b>	<b>Read</b>
	Alan Coyle	
	csmith@hg-group.co.uk	
	Findlay, John	
	Dennis Murray	Read: 08/08/2011 17:03

Gents

Following the original submission from Siemens, Axel has now put forward responses to the questions raised by Dennis.

Generally these are unsatisfactory and don't really address the original point raised.  
In particular:

- generally "LOTS" extended beyond any physical site work period. (Jan 14 – May 14)
- Still 2 QS, 3 Contract Managers and 1 change manager all after any site work complete.
- Costs from Germany related to equipment allocated and warranty extension priced when materials already bought at a premium and vested in CEC in 2011.
- BAM submission shows many concerns and Siemens have made little attempt to understand or challenge it. It shows EOT of ~£2.5m for £700k of site construction works, includes a claim for delay (April – October 2011) and shows £600k markup from Siemens who have not added any value in even understanding the submission. Still at least £2m too high.
- Risk should be on construction works not all costs.

We can discuss tomorrow.

Regards

Steven

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## ***Moving the capital to a greener future***

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**From:** Dennis Murray  
**Sent:** 08 August 2011 14:49  
**To:** Steven Bell  
**Cc:** Fiona Dunn  
**Subject:** FW: Onstreet Target Price

Steven,  
Siemens response to our initial questions below with my further remarks where appropriate.

Dennis

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**From:** Eickhorn, Axel [mailto:axel.eickhorn@siemens.com]  
**Sent:** 08 August 2011 12:07  
**To:** Dennis Murray  
**Cc:** Brandenburger, Alfred  
**Subject:** AW: Onstreet Target Price

Dennis, Fiona,

following the informal discussions we had about your questions and following submission of our revised conditional On Street Works Price proposal I would like to take the opportunity and answer your questions as follows:

1. Your price is based on the works being carried out by resources during a period from September 2013 to May 2014. There is no visibility of a programme – is this the correct time window for this work?

Answer: The proposal is based on the latest version available which is Revision 3a (110628). Compared to Revision 1 (110321) distributed after the Mar Hall mediation the date for completion of Section D has moved from 25-Jan-14 to 20-May-2014, i.e. by 115 calendar days or 82 working days. This has now been taken into account to solely reflect the impact of the inclusion of the on-street activities.

Siemens has addressed the issue of the overlap period from the overall section D completion date off street but does not answer the question of the actual timing (and therefore costings) of the work sections. In order to assess the additional cost of each 'lot' carrying out the on street works it is necessary to provide an individual programme duration for each 'lot' and to compare that with the durations allowed for in the lump sum price for off street. Supplementary information provided last week shows that all of the 'lots' construction works are programmed to be complete by the end of 2013 yet the proposal costs all of the lot resources from January to May 2014. This is not logical.

2. You have allowed on average for 56 staff at a total staff cost of nearly £8million (excluding the BAM staff) to manage the installation only of approx 1.5 km of track. Is this correct given that all procurement/design/manufacture and delivery of materials has already been paid for and we are only dealing with site installation

Answer: The on-street section Haymarket to York Place is ca. 2.6 km long (incl. Princes Street). The challenge we will be facing is the complex nature of implementing the works under the given circumstances (traffic management, short sections, hindrances to be expected, resource constraints etc. all leading to) all leading to a relatively long time span of doing the work. During the said period Siemens will not only have to deal with site installation, but also with general project management, system integration, testing and commissioning, change management, requirements management etc. The functions and resources included in our proposal are required to ensure a functioning project administration and are only included with the anticipated degree of their ongoing involvement in the project and as required to comply with Siemens internal and external guidelines and processes for the duration of the project.

The complexity is not in question. What is in question is the allowance of a full bore resource level (circa 56 staff of Project and 'lot' management) from January to May 2014 when it is clear that all staff are not required to be employed either on or off site during this period. See not in Q1 above.

3. The staff allowance allows for 11 commercial staff, 8 from Sept 2013 to May 2014 and three quantity surveyors from 2011 to 2014 at a total price of more than £2million. This is only the commercial staff allowance to instal 1.5km of track. Is this correct?

Answer: The original intention when including 3 additional Quantity Surveyors for the duration of the on-street works was to ensure a proper joint administration of the proposed target sum mechanism which requires a higher than usual level of daily records. Nevertheless we have now reduced the number of QS from 3 to 1 and have proposed a contractual mechanism allowing to increase resources later again if so required (one of the conditions in Alfred's email of 2. August with our revised price). We have also taken out one of our contract managers who is currently dealing with design management and finalisation mainly and who is unlikely to be required on this job in 2014 still.

The answer is incorrect. The allowance has reduced from 4 QS's to 2 QS's (one full period and one extended period). **There remains 2QS's; 3 Contract Managers and 1 Change Manager all charged during a period when there is no ongoing construction work. (January to May 2014).**

4. What are the Project support functions in Back offices in Germany doing during the installation of track?

Answer: Basically support of the functions described in 2. and to fulfill Siemens AG's obligations under the sub-contract with Siemens plc. Said sub-contract is back-to-back and therefore Siemens AG has an ongoing commitment as Siemens plc. I would like to add that most of the specialist equipment like signalling and electrification is provided by Siemens AG and consequently Siemens AG plays a vital role in the ongoing delivery of the project.

Comment as Q1 above. There is no ongoing construction work during 2014 therefore there is no reason for full value Preliminaries resources in Germany to be retained and costed to on street works. Furthermore regarding the comment on the Specialist equipment provided by Siemens AG – this equipment has been procured, manufactured and delivered through the lump sum for off street works.

5. You have allowed for nearly £600k for storage costs from Sept 2013 to May 2014. Is this an extension to Broxburn yard?

Answer: Broxburn and South Yards in Leith. We would be open to discuss a takeover of storage facilities by tie/CEC.

Needs to be rationalised. What allowances for storage was made in the off street works lump sum?

6. Why is there an allowance for the Depot and Workshop manager and Installation and Commissioning Manager for the Depot allowed for in the on street price?

Answer: To support the system wide integration and testing and commissioning.

The Depot construction works are scheduled to be complete in October 2011. Final Testing and commissioning of the Depot should happen once and be included in the off street lump sum. Why are the Depot Manager and Testing and Commissioning Manager costed again in 2014?

7. Why is there an allowance of nearly £1million for Rail Automation in Germany during Sept to May 2014 in addition to the UK Project Management for Rail Automation.

Answer: See answer to question 4.

See Comments at Q4 above.

8. How is the BAM price calculated? It is noted that the BAM period is up to 15 July 2013.

Answer: BAM have calculated their price as an extension to their sub-contract. We have adopted their calculation in our proposal. I confirm that we are open to having a joint discussion between tie, BAM and Siemens.

Furthermore BAM will have to update their proposal, because the last track work activity has moved to 13-Sep-2013 in Programme Rev. 3a which was not available when BAM prepared their proposal.

Siemens has made no attempt to explain the BAM submission but does add over 600k in mark up to BAM proposal. It would appear from the supplementary information provided last week that BAM has allowed over 2.5m of 'EOT costs' to carry out 0.7m of construction work. Again no information is provided to assess the additional preliminaries required by reference to the Off street programme and cost allowances in the lump sum. In addition there is a BAM delay and disruption claim from March to October 2011.

9. You have allowed over £700k for extended warranties. Materials have been paid for in their entirety under the lump sum for Off street works. What warranties were included and provided for there?

Answer: This amount covers the increased risk of the delayed beginning of the defects liability periods (which basically start when Section D is completed). It is calculated as a percentage of the total cost of affected material and equipment (2% p.a. on 40% of the initial contract value).

The explanation is not understood. The question still remains in relation to the allowances for warranties when tie/CEC purchased the goods against what is now required. For example if Siemens were not required to carry out the on street works what warranty is attached to the goods supplied and vested in CEC to date?

10. You have allowed for over £900k for 'implementation risk'. This is to instal 1.5km of track. This work is largely carried out by BAM and it is expected that they carry their own 'implementation risk'. How is your figure calculated and what risk is it intended to cover?

Answer: We made a provision of 5% of the on-street works price (excl. changes) to cover the risk of disallowable costs, uncompensated delays, unrecoverable sub-contractor's claims and changes etc. We deem this amount of 5% to be on low side given the expected organisational complexity and challenges we expect in carrying out the on-street works.

It is accepted that a risk allowance is appropriate however it should not be a percentage of the total costs included in this proposal since the majority of the cost is proposed on a 'loss and expense ' basis for staff and other resources which should not attract a 'risk ' allowance. tie would expect a risk allowance on the cost of the construction works only.

With best regards,

Axel Eickhorn  
Deputy Commercial Project Manager  
Edinburgh Tram Network

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**Von:** Dennis Murray [mailto:Dennis.Murray@tie.ltd.uk]

**Gesendet:** 01 July 2011 14:52

**An:** Eickhorn, Axel

**Betreff:** Onstreet Target Price

Axel,

I have the following initial questions on the price breakdown you gave me.

1. Your price is based on the works being carried out by resources during a period from September 2013 to May 2014. There is no visibility of a programme – is this the correct time window for this work?
2. You have allowed on average for 56 staff at a total staff cost of nearly £8million (excluding the BAM staff) to manage the installation only of approx 1.5 km of track. Is this correct given that all procurement/design/manufacture and delivery of materials has already been paid for and we are only dealing with site installation?

3. The staff allowance allows for 11 commercial staff, 8 from Sept 2013 to May 2014 and three quantity surveyors from 2011 to 2014 at a total price of more than £2million. This is only the commercial staff allowance to instal 1.5km of track. Is this correct?
4. What are the Project support functions in Back offices in Germany doing during the installation of track?
5. You have allowed for nearly £600k for storage costs from Sept 2013 to May 2014. Is this an extension to Broxburn yard?
6. Why is there an allowance for the Depot and Workshop manager and Installation and Commissioning Manager for the Depot allowed for in the on street price?
7. Why is there an allowance of nearly £1million for Rail Automation in Germany during Sept to May 2014 in addition to the UK Project Management for Rail Automation.
8. How is the BAM price calculated? It is noted that the BAM period is up to 15 July 2013.
9. You have allowed over £700k for extended warranties. Materials have been paid for in their entirety under the lump sum for Off street works. What warranties were included and provided for there?
10. You have allowed for over £900k for 'implementation risk'. This is to instal 1.5km of track. This work is largely carried out by BAM and it is expected that they carry their own 'implementation risk'. How is your figure calculated and what risk is it intended to cover?

As discussed it may be beneficial if we meet to discuss these queries rather than exchange emails. The above will form an Agenda for discussions. We can arrange a meeting for early next week if that suits.

Regards  
Dennis

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Commercial Director

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