
From: Willie Gallagher
Sent: 06 May 2008 03:13
To: Stewart McGarrity; Graeme Bissett (external contact)
Cc: Geoff Gilbert; Dennis Murray; Fitchie, Andrew; Steven Bell
Subject: RE: Infraco terms - Strictly Confidential

Being an extra in Jaws must have been more fun than trying to figure this one out!!

Willie

From: Stewart McGarrity
Sent: 06 May 2008 01:48
To: Graeme Bissett (external contact)
Cc: Geoff Gilbert; Dennis Murray; Fitchie, Andrew; Steven Bell; Willie Gallagher
Subject: RE: Infraco terms - Strictly Confidential

Graeme,

Got your second text earlier but my phone has since refused to connect to the network here (I'm cursed by these things) something I'll try to resolve with Seamus tomorrow but I'll pick up mails this time tomorrow no matter what.

Agree with your analysis below and would (really!) like to know background to the 3.3m Infraco costs allocated to Phase 1b from those who were involved at the time (Matthew and Geoff certainly). Has the Phase 1b price we will negotiate just gone up by 3.3m?

I can confirm there are no other "allocations" to Phase 1b that I know of other than the 3m design costs spent under SDS which would be a straight add on to 508m in the event we didn't proceed with Phase 1b. CEC/TS are fully aware of this.

Stewart

From: Graeme Bissett [mailto:graeme.bissett@██████████]
Sent: Mon 05/05/2008 8:19 PM
To: Willie Gallagher; david_mackay@██████████ Steven Bell
Cc: Geoff Gilbert; Stewart McGarrity; Dennis Murray; 'Fitchie, Andrew'
Subject: Infraco terms - Strictly Confidential

Taking the bones of the deal proposal, here are some comments for discussion :

I don't have exhaustive copies of the procurement documentation or all the TPB papers from last year, but I have had a look at some papers from October 07 period and cannot find any reference to BBS allocating £3.3m of cost to 1b. The Business Case says that both bidders have allocated all fixed costs of construction to 1A. I spoke to SMcG who has confirmed that there is a full and proper basis for all the costs included in the £508m 1A cost and a similar though less definitive analysis for 1B because of the currently less rigorous contract terms for 1B. However, the 1A cost is what we expected to spend in cash to deliver 1A. Geoff is probably best-placed to verify BBS's justification for the £3.3m claimed to be in the 1B bid number and to highlight how it was documented at the time, if it was visible to tie ; also what the comparable position with Tramlines was in the light of the statement in the business case.

If BB / S have made a £3.3m overhead cost allocation "behind the scenes" as they claim and which they now want underwritten if 1B does not proceed, this would be incremental cost to the 1A budget of £508m. However, as a bridge to reach a deal this is less contentious than a simple grab of more money.

1. Firstly, it is contingent on 1B not proceeding ; if 1B does proceed, BBS cannot rationally add it to their component of the £87.3m 1B budget estimate. We will of course be potentially faced with further sleight of hand as they finalise their costs for 1B, but asking for the same sum twice might be beyond even them.
2. If we accept the proposition that they do have £3.3m at stake if 1B falls, the financial effect on us would be similar to the £3m of mostly design costs for 1B which we have incurred (with approval) and which would be worthless if 1B does not proceed. These costs are held outwith the £508m 1A budget and are included in the £87.3m 1B budget. We also have a plan to commence utility works this year ; to the extent that these do proceed, but 1B does not, there is a further cost exposure not within the £508m, but this would be a positive decision not yet taken.
3. Although we will seek to limit 1B investment until its future is more certain, the approach of priming the pump is in line with the approach taken to 1A where we have necessarily invested substantial sums which would be at risk if 1A did not proceed.
4. We have absorbed 100% of all project management and legal costs into the 1A budget to date while some of this is demonstrably related to 1B ; what is left in the £87.3m 1B budget (except for the £3m design costs and the sum now claimed by BBS) is incremental cost that will be incurred only if we positively decide to do so. There is therefore no further risk of 1A being exposed to 1B related cost.

Taken together, this seems a reasonable proposition as a means of getting BBS into a contractual relationship they will find considerably more difficult to exploit than the procurement process. If Geoff can confirm the background to the £3.3m and the Tramlines equivalent (if there is one) we may not have any exposure to a cost differential between the bidders.

To the extent that any additional settlement is needed to get BBS nailed, the sensitivity is obviously cushioned by what we get in return, which may reduce the QRA driven risk contingency, or soften the risk without amending our numbers or otherwise give us advantage. This would take the edge off a cash settlement.

I don't think it will be right to present the £3.3m as a budget increase ; it is an exposure along with the other £3m which we have not taken into the 1A budget. Clearly the terms will be fully discussed with CEC and the TPB and tie Boards (and TS) so people can make up their own minds, but adding £3.3m now would be inconsistent. Any additional cash settlement would logically be added to the budget but subject to the offsets negotiated.

I'm in Glasgow first thing tomorrow, back at c11.30am. Happy to speak tonight or either side of 9.30-10.30 tomorrow morning.

Regards
Graeme

Graeme Bissett

m : +44 [REDACTED]

