

625206224

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Sent: 29 January 2007 18:26
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Subject: Infraco evaluation & revised cost estimate - Restricted - Commercial

Matthew

We spoke earlier this afternoon about some key topics for tomorrow and ways forward for the week ahead.

Firstly, we have an hour together tomorrow and in that time can clearly only identify key issues and the plan for ensuring that Transport Scotland understands the basis for tie's paper. We will clearly need to follow up with subsequent meetings on detail and we will need to find time in the calendar for those including some this week.

I gave you some areas where we are likely to want to understand your thinking and analysis:

1. A better understanding of the normalisation process that was undertaken / required
2. An understanding of the associated exclusions and assumptions as part of the normalisation process.
3. Confirmation of whether the 2% difference between bids is pre- or postnormalisation (or both)
4. How programme impacts on the cost estimates and what bidders have said about programme compliance
5. How novation impacts on the cost estimates what bidders have said about novation
6. What approach is being taken to realising the significant savings predicted
7. How indexation has been applied to costs and funding – the table at Appendix B shows inflation allowances for some headings but not all – are the total funds available and the estimated costs being calculated on a consistent basis?
8. Confirmation that the Infraco cost shown is that of the lower bidder's normalised cost *Yes*
9. Further clarity about how risk has been allocated within the cost headings and how that maps against the total risk of the scheme – essentially is every risk counted but counted only once – *Nirva.*
10. Discussion on main areas of divergence; prelims (risk interpretation) & civil structures design (current design status/progress and impact on novation etc) between the bidders
11. Discussion around the interpretation and use of the 'traffic light' certainty table
12. *Risk balance issue*

I understand that you will want to do a short presentation that may cover some of these points leaving us to discuss the others and sort out arrangements to provide assurance to Transport Scotland on the level of confidence that can be attached to the estimates.

Damian

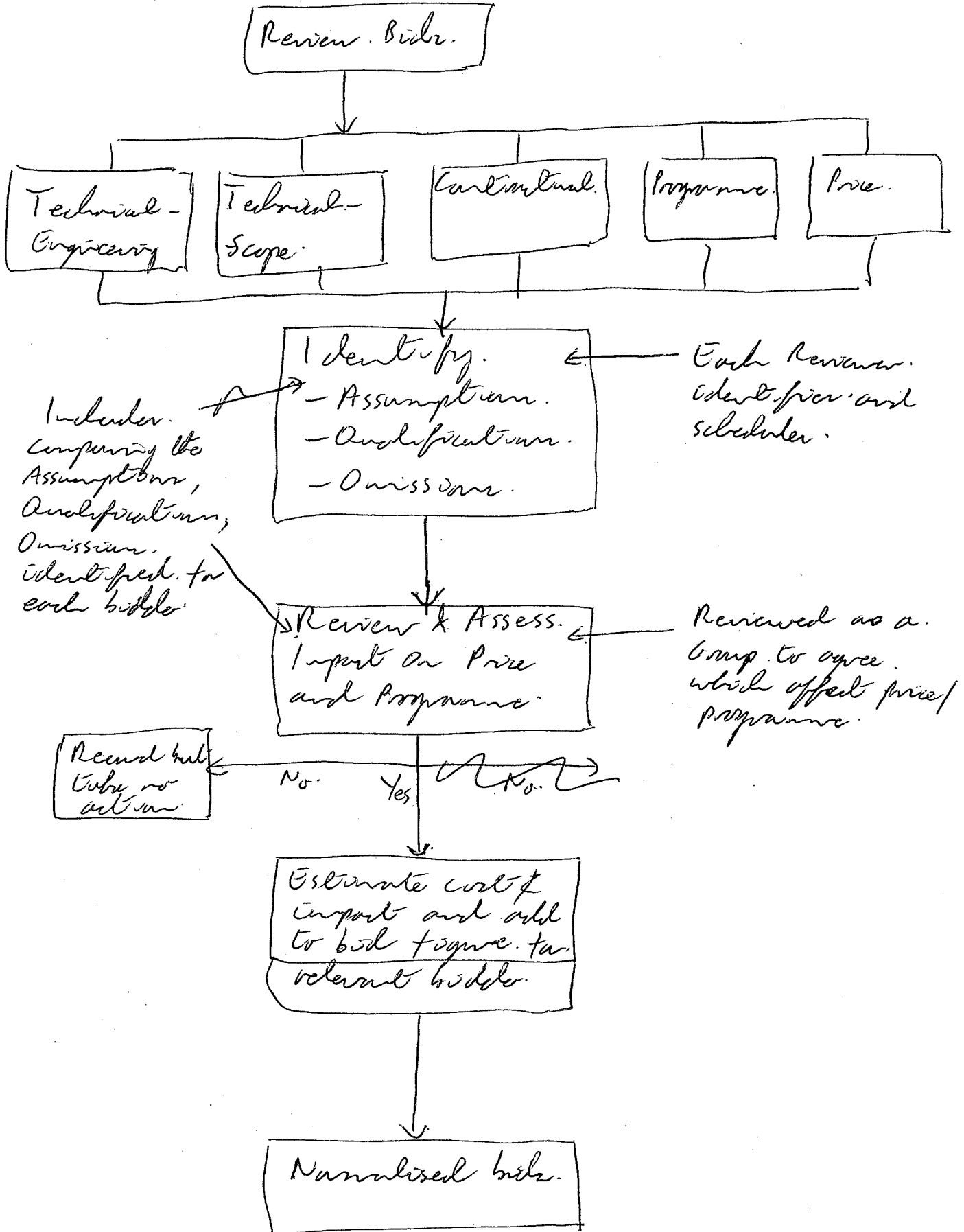
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29/01/2007

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INFRACO EVALUATION & REVISED COST ESTIMATES

1. Normalisation Process.



Note :- Lowest bidder normalised bid cost used to update Project Estimate.

2 Significant Assumptions & Omissions dealt with in the Normalisation Process.

- o Allowance for inflation (1 bidder).
- o Network Rail Possession support (both bidders).
- o Road refreshing in critical areas (both bidders).
- o Element of Chovelle Charger. (both bidders).
- o Allowance for minor utility diversion. (both bidders).
- o Additional substation. (one bidder).
- o UTC signalling work.
- o Train on board signalling & control. (1 bidder).
- o Balgarean Road Bridge to be open alternative (both bidders).
- o Work to Murreyfield pithead (both bidders).
- o Accommodation works (1 bidder).
- o Electrical power for commissioning (1 bidder).
- o Allowance for road finish between tracks (1 bidder).
- o Allowance for delayed start (1 bidder).

Adjustments.

- o £22m. & £44m.

3 Difference between bids.

- o Pre normalisation - 4%.
- o Post normalisation - 2%.

4 Programme compliance.

- o Bidders have conformed. completion dates generally ~~are~~ within timeframes.
 - one bidder advised completion in July 10.
 - other bidder advised completion in Nov 10.
 - one bidder requires different in that one bidder plans to do structures early in programme other program later.
 - bidder generally larger on street than our programme but their programme based on conventional construction.

5 Novations.

o SOS.

- Nervousness over SOS quality of output and delivery of design buildable designs to programme.
- Plan to have detail design done before award and bidder due diligence undertaken.
- Need to build bidder's confidence in designs & SOS.
- Ultimately not crucial that SOS route but need bidder to take detailed designs.
- Negotiation will be required on terms.

o Tranco.

- Negotiation to be held on liabilities.
- One holder advised premium for another parties to run circa 0.5% - not significant.
- Will use facilitated negotiations to resolve uncertainties.

~~o Approach to realizing the significant savings.~~

TS. REVIEW OF
INITIAL ANALYSIS.

30/1/07.

BR/5R/05/NS/WB/MC/GG/KM.

1/ Next steps.

- o Want to know how will realise savings.
 - ↳ Opportunity register -
 - ↳ What, who deliver. Action.
- o Contractual point issues explain.
- o Programme.
 - ↳ SOS issuer.
 - ↳ Inflation risk.
 - ↳ Should we delay e.g. 3 months.
- o Indentation. Go to review with Nelson.
- o Risk incl. all elements -
 - ↳ What risk against MUOFA.
- o Maintenance cost issue. - are the costs consistent with Business Case.
- o Question for Scott Wilson.
 - whether believe that savings are clearly realisable. & can it be translated into a delivered cost.
 - SW 7 or at ~~17~~ 17m level.
- o Evidence on close contract price to closed price.
 - ↳ cf. Dublin.
- o Send Email response on OS.
- o Further meeting - ABC City PB wed. 30/1/07.
- o Looking to close out by mid Feb.

o MUOFA Risk.

o Bid winning price v. Delivered cost/price.

o Trade off Capex v. Open costs in savings.

o Is £545m number.

£545m based on TS indentation.

OS
o Recap on.

o Is all risk there -

o Plan for realising savings.

SAVINGS.

ACTIONS.

- Actions.
- 1/ Opportunity register.
 - 1/ Correct risk balance.
 - 2/ Logic for shift on PM costs.
 - 3/ Discuss Opp register with MS.
 - 4/ 'Normalised' Commission sheet.

1/ Opportunity register. Register

o Heading r.

- Opportunity.
- Cost of PE element.
- Max/Min opportunity or price.
- Impact on
 - programme.
 - maintenance price.
 - performance.

- Categorisation → E, M, D.

- Probability of realisation. E = 80%.
M = 50%.
D = 25%.

- Probability featured price - Max/Min.
- Commission.

o Draw up and populate register.

2/ Draw up processes.

3/ Update files.

- Make sure reports are the updated. reports.
- Backup files.