

Project Carlisle counter offer

High level summary for CEC officials

20th August

Structure of Carlisle

- Project split into 2 parts
- Part A –
 - Tram operating to St Andrew Square
 - Some infrastructure enabling works to Newhaven
 - Almost all utilities
 - All trams
 - Complete design airport to Newhaven
- Part B – St Andrew Square to Newhaven, (can be split into sub-sections and executed at tie's absolute discretion)
- Edinburgh Gateway Project would be an addition to Part A

Part A consists of

- Infraco Scope included in GMP
 - Airport to Waverley Bridge, excluding
 - On street Civils works (see appendix A)
 - All 27 trams
- On street Civils works procured directly by tie
- Any additional payment to SDS (see appendix B)
- Settlement of the PSSA Costs
- All 'other' costs (e.g. Land, utilities, design, project)
- Risk allowance

Revised Completion Dates

- Airport to Waverley bridge June 2012 (trams running to Shandwick place)
- Airport to St Andrew Square ?

Part A price

- GMP (anticipated) £270m- 290m
- On street Civil works £14m
- SDS >£14m
- PSSA >£10m
- 'other costs' £230
- Risk £20m
- Total range (from above) £544m- 585m
- Likely outcome £560m-585m

- Note part A price includes some part B 'sunk' costs
 - e.g. 10 trams, utilities, design, enabling works , circa £XXm

Part B price

- 5.2km of on street
 - Civil works at £9m-£14m/km £45m-£70m
 - System £16m
 - ‘other’ £4m-£9m
 - Risk £10m
 - Range from above £70m- £105m

Other important Conditions

- Infraco responsible for completing an approved integrated design for both Phases 1 and 2
- The design for On-street track will be acceptable to tie at its absolute discretion
- Acceptable remediation strategy for remedial work to PSSA works
- tie will be able to vary the Scope only for the satisfactory completion of the Infraco Works.
- Infraco will have the benefits and burdens arising from value engineering.
- Infraco will be responsible for:
 - Ground conditions
 - Unforeseen utilities up to £50k
 - Landfill Tax
 - Obtaining approvals

Risks to GMP

- Delays to tie managed on-street works
- Unforeseen utilities greater than £50k

Why Carlisle

- Alternative is termination
- Incorporates all delays and changes (whether 'justified' or not)
- Keeps open the option to pursue SDS
- Certainty
- Agreed timetable

Legal

- Project Carlisle is entirely without prejudice
- A Counter Offer will not be legally binding
- Any deal subject to board/shareholder approval on both sides
- Counter Offer takes account of EU Rules – but not fool proof answer

Outline deal timetable

Activity	By whom	When 2010
Explain Scope	Joint PC Team	17 August
Finalise and issue Counter-Offer	tie PC Team	23 August
Meet and discuss Counter-offer	Joint PC Team	25-28 August
Revise counter offer if required	Joint PC Team	29 August
Meet to finalise price and any outstanding terms	Principals and advisors	By 3 September
Agree HOT's	Companies	8 September
Finalisation	Companies	15 September

ajrexplanation 17/8/10

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Factors affecting tactics

- Likely outcome of GMP negotiations
- Sharing of pain versus ‘burying the dead’
- What is ‘fair value’, depends on your view
 - Best value design
 - Delays
 - Who is liable for ‘Changes’
- Affordability
- Start too low they walk?

- The revised Scope is advantageous to BB(UK) - it gives them a clear exit and removes substantial risk.
- The revised Scope leaves Siemens with an uncertain exit and removes no risk.
- CAF have possession of 27 Trams for which they have been paid – they may attempt to hold tie to ransom (EK thinks they will).
- SDS are between a “rock and a hard place” and will be controlled by their PI Insurers.

Appendix A – omitted civil engineering works

- site clearance ;
- traffic management;
- planing road carriageways;
- taking out and relaying kerbs and kerb logs;
- dealing with any obstructions/soft spots/utilities/voids;
- constructing track drainage;
- installing cable duct banks;
- OLE pole foundations;
- reinstating/renewing paving ;
- all civils works for new traffic signalling at junctions/pedestrian crossings;
- pavement reconstruction;
- constructing central reservations;
- re-installing street furniture;
- completing landscaping/street-scaping works ;
- all associated stakeholder management and liaison functions.

Design Failures

- SDS are claiming an additional £14.5m
- Our GMP offer excludes any payment to SDS
- We will reserve the right to sue Infracore Parties for negligent design
- The issues
 - – why has the design changed so much?
 - - is it best value