

Tram Project Board

10 February 2010

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Tram Project Board Presentation Format

- CEO Overview (R Jeffrey)
- Building the Tram (S Bell)
- Finance (S McGaritty)
- Pitchfork (R Jeffrey)
- Preparing for Operations (A Richards)

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Building the Tram (Project Director's Report page 9)

- HSQE Report
- Overview of current progress
- Change requests and risk drawdown (page 16)
- Relationship with BSC

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Deliver a Tram Safely



- There have been no reportable accidents during Period 11; however a reportable accident has been recorded for period 12.
- A number of excavations have been carried out, reopening areas previously backfilled by Carillion and a number of new areas. During Period 11 there have been 2 significant service strikes, one for BSC and one for Clancy Dowcra.
- There has been a reduction in the number of interactions with members of the public during Period 11. To date, no MOP incidents have been reported against Clancy Docwra.
- The number of **tie** PM inspections planned vs. completed has improved since last period.
- Following the incidents with BSC using lifting equipment out with agreed Work Package Plan, agreed safe system and failure to comply with Network Rail "failsafe" requirements, **tie** have instigated a number of inspections and an investigation with BSC.

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Deliver a Safe Tram

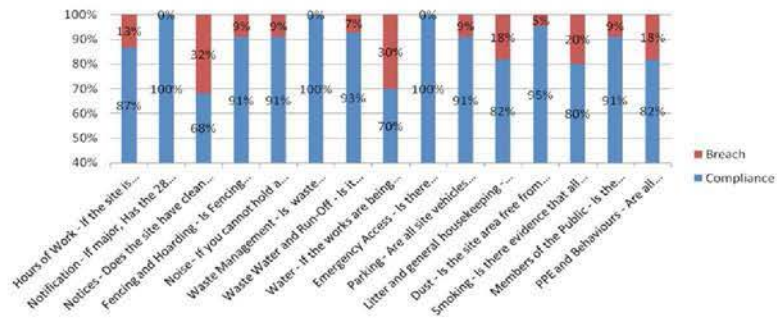
| Section | Activity | Data Checked | | | | | |
|-----------------------------|-------------------------------|--------------------------------|---------|---------------------------------|---------------------------|----------|----------------|
| | | Interdisciplinary Design Check | Hazards | Inspection and Test Plan System | Design Variations/Changes | As Built | Asset Register |
| Boarhoun Capod | Drainage | 0 | On Hold | 1 | 0.5 | 1 | N/A |
| Russell Road Retaining Wall | Piling | 0.5 | On Hold | 0.5 | 1 | 1 | N/A |
| Guged Buiwey | Drainage/Track Welding | 0.5 | On Hold | 1 | 1 | 1 | N/A |
| PD | Total (y) | 1 | 0 | 2.5 | 2.5 | 3 | 0 |
| | Max Possible Total (y) | 2 | 0 | 3 | 3 | 3 | 0 |
| Total to date | Percentage P10 | 50% | 0% | 91% | 63% | 75% | 50% |
| | Percentage P11 | 50% | 0% | 90% | 60% | 80% | 50% |

Key - Y = Evidence exists (1) N = No evidence exists (0) NA = Not applicable (-) P = Part evidence in place (0.5)

- There has been little movement or improvement in the evidence provided by BSC proving that the design has been subject to a full Inter-Disciplinary Design Check.
- Detailed IDC audit was undertaken 28th & 29th January. Some comfort was gained but progress remains slow.
- Initial discussions regarding the SVS of Princes Street works have taken place but due to pending audits on BSC/SDS this exercise has been postponed until Period 13/01.
- BSC have been able to demonstrate good progress with as-builts for the areas checked.
- A number of productive discussions have taken place regarding the recording and management of assets for the Tram Infrastructure and the Tram. These have been carried out in conjunction with TEL and ETL.

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Code of Construction Practice – Period 11



Overall compliance level is 88%

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Utilities

- Carillion works (MUDFA) between Constitution Street and Newhaven are complete, and Farrans have been awarded the remainder of the Section 1A utilities diversions which re-commenced w/c 4/01/10
- Clancy Docwra are progressing the remaining utility work scope in the City Centre to complete the remaining works at – Haymarket, Shandwick Place, and York Place to Annandale Street,.
- Outstanding BT Cabling related works are underway in St Andrew Square and Leith Walk



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Utility Works – to Completion

| Section | Contractor | Scheduled Utilities Construction Completion Date | Statutory Utility Works Remaining (e.g. BT) | Comments |
|---------------------------------------|---------------|--|---|--|
| Haymarket | Clancy Dowcra | 7/4/10 | Cabling & Transfers 7/4/10 | Clifton Terrace Section available as planned 31/1/10 Shandwick Place available 9/2/10 |
| Lothian Road | - | Complete | Cabling and tracks 30/3/10 | |
| York Place – Annandale Street | Clancy Dowcra | 6/4/10 | Cabling & Transfers 1/8/10 | Phased availability expected in advance of August |
| St Andrew Square | - | Complete | Cabling & Transfers 1/8/10 | Phased availability expected in advance of August |
| Princes Street – West Register Street | - | Complete | Cabling & Transfers 31/3/10 | |
| Leith Walk | - | Complete | Cabling & Transfers 19/7/10 | Phased availability expected from Feb 10 |

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Utility Works – to Completion

| Section | Contractor | Scheduled Utilities Construction Completion Date | Statutory Utility Works Remaining | Comments |
|---|-----------------------------|--|-----------------------------------|---|
| Constitution Street (excluding Baltic Street) | Land Engineering/ Frontline | 1/6/10 | | Side entry manholes |
| Baltic Street | Competitive tender | September 2010 | November 2010 | Extreme congestion design now being signed off with Utilities |
| Lindsay Road | Clancy Dowcra | 22/3/10 | 22/3/10 | Infracore Works able to commence from 8/3/10 |
| Lindsay Road – Ocean Drive | Farrans | 11/5/10 | 1/6/10 | Phased availability expected in advance of May 10 |

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Infraco

Progress in Period 11:

- Overall 13.8%, an increase of 0.7% against a plan of 4.1%, reflecting the lack of progress from BSC for on-street works.
- Off Street works progressing at several locations:
 - Haymarket viaduct 38%
 - Russell Road Retaining Wall (W4) (piling works) 15%
 - Carricknowe bridge (both North and South abutments) 40%
 - Edinburgh Park viaduct – approach ramps 85%
 - Depot building steelwork and cladding erection. 16%
 - Gogarburn bridge – bridge deck finishes and approach ramps 84%



Change Requests and Risk Drawdown (page 18)

- *Drawdown in period - £977K*
- *Covers 8 individual items :*
 - *Edinburgh Park Bridge South Abutment*
 - *Drainage Design Review Eastfield Avenue*
 - *A8 Underpass Existing Services*
 - *Baird Drive Retaining Wall*
 - *Tower Bridge Amendments*
 - *Balgreen Road retaining Wall*
 - *Utilities Conflicts Schedule (SDS)*
 - *Update Utilities IFC Drawings*

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Trams Progress

- 17 trams now completed or in production;
- 5, 6, 7 & 8 in finishing area;
- 3rd and 4th trams undergoing the factory acceptance test;
- 1st and 2nd trams at test track in Wildenrath undergoing tests until March 2010;
- 1st tram planned to be delivered April 2010 to Edinburgh;
- Draft O&M manuals received;
- Mock-up about to be moved to the Airport in February.



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Tram Spend to Date - Feb 2010

| £m | Cum Mar 08 | 08/09 | 09/10 | Cum Feb 10 |
|-------------------------|---------------|--------------|-------------|---------------|
| Infrastructure - BB/S | 22.3 | 31.3 | 33.6 | 87.2 |
| Infrastructure – Other | 5.7 | 1.5 | 8.2 | 15.3 |
| Vehicles – CAF | 2.7 | 12.6 | 22.5 | 37.8 |
| Utilities (Incl MUDFA) | 18.4 | 33.4 | 10.5 | 62.2 |
| Design (SDS) | 21.4 | 4.7 | 2.0 | 28.1 |
| Resource costs | 35.7 | 13.8 | 12.1 | 61.6 |
| Other Costs (incl land) | 23.9 | 3.6 | 2.6 | 30.2 |
| Phase 1a | 130.1 | 101.0 | 91.4 | 322.5 |
| Phase1b | 3.0 | - | 3.2 | 6.2 |
| Total Costs | 133.1 | 101.0 | 94.6 | 328.7 |

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- Expenditure to date is £328.7m including £6.2m on Phase 1b
- Of the total £84m (25%) relates to Bilfinger and Siemens – CAF shown separately
- Mobilisation payments to BB, S and CAF in aggregate £22m were booked as expenditure in year to March 08 (even though contract wasn't signed till May 08!)

Tram Approved Budget Status - Feb 2010

| £m | Spend to Feb 2010 | Finan'l Close Budget | Transfers | Risk Drawn | Approved Budget Feb 2010 |
|---------------------------------|-------------------|----------------------|-----------|-------------|--------------------------|
| Infrastructure - BB/S | 87.2 | 236.7 | 1.8 | 6.4 | 244.9 |
| Infrastructure - Other | 15.3 | 10.6 | 2.7 | 3.8 | 17.1 |
| Vehicles - CAF | 37.8 | 58.2 | - | 0.3 | 58.5 |
| Utilities (incl MUDFA) | 62.2 | 48.4 | (5.3) | 13.0 | 56.1 |
| Design (SDS) | 28.1 | 26.9 | - | 2.0 | 28.9 |
| Resource costs | 61.6 | 68.3 | 0.4 | 2.8 | 71.5 |
| Other Costs (incl land) | 30.2 | 32.6 | 0.4 | 0.8 | 33.8 |
| Base Costs | 322.5 | 481.7 | - | 29.1 | 510.8 |
| Risk Allowance (separate slide) | - | 30.3 | - | (29.1) | 1.2 |
| Phase1a | 322.5 | 512.0 | - | - | 512.0 |
| Phase1b | 6.2 | - | - | 6.2 | 6.2 |

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- Since financial close in May 2008 we have processed Risk Drawdowns against the original risk allowance aggregating £29.1m
- This means there is just £1.2m left from the original risk allowance of £30.3m included in the £512m budget at financial close.
- These drawdowns have been reported to the TPB each period and have been specifically approved by the TPB where the value or nature of the change has been outwith the delegated authority of the Tram Project Director

Risk Allowance Status – Feb 2010

| £m | Finan'l Close | Risk Drawn | Balance Feb 10 |
|----------------------------------|------------------|---------------|-------------------|
| Delay, Disruption & Acceleration | 5.5 | - | 5.5 |
| VE Deliverability | 2.0 | - | 2.0 |
| Ground conditions | 3.4 | (3.3) | 0.1 |
| Road reconstruction | 1.5 | (1.5) | - |
| Other Infraco | 4.9 | (3.3) | 1.6 |
| Design Development & Alignment | - | (1.7) | (1.7) |
| Princes Street | - | - | - |
| Burnside road | - | (1.5) | (1.5) |
| Total Infraco | 17.3 | (11.3) | 6.0 |
| Land related | 2.5 | - | 2.5 |
| Project Costs | - | (2.8) | (2.8) |
| SDS | 3.9 | (2.0) | 1.9 |
| Utilities | 6.6 | (13.0) | (6.4) |
| Total Risk Allowance | 30.3 | (29.1) | 1.2 |

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- These drawdowns have been reported to the TPB each period and have been specifically approved by the TPB where the value or nature of the change has been outwith the delegated authority of the Tram Project Director
- It is proposed that we increase the risk allowance (and therefore the approved budget outturn for the project) on an interim basis now to reflect the impact on outturn costs of changes which have already taken place or those where we have visibility of them coming forward in the near future.
- The increased budget will still be below the level of £545m for which TEL has authority from CEC

Project Pitchfork

- Background
 - 20/38 months since contract signature
 - 13.8% complete
 - Slow progress/ being held to ransom
 - Poor attitude/trust
- Brief
 - 13th January -TPB instructed that **tie** should evaluate strategic commercial/legal options to bring about change in the delivery of the Tram construction project
 - 10th February – update on progress to TPB
 - 10th March – recommendations to TPB
- Decision required (10th March, not today)
 - To agree the preferred option for tie and agree the strategy for working towards that preferred option

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Pitchfork – possible routes forward (not necessarily mutually exclusive yet)

- Our options
 - Comply with Infraco
 - Get BB to comply with TIE
 - Terminate Infraco contract
 - Negotiate BB exit
 - Grind through issue by issue
- Their options
 - Comply with TIE
 - Get TIE to comply with BB
 - Terminate, or provoke TIE into termination
 - Remove TIE
 - Negotiate BB exit
 - Grind through issue by issue

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Our options

- **Comply with BB**
 - Unknown cost, and programme
 - Public duty to deliver best value?
- **Get BB to comply with TIE**
 - How likely? And for how long?
 - Can they be 'beaten' into submission?
- **Terminate infraco**
 - Legal battles?
 - Project cancelled?
- **Negotiate BB Exit**
 - What mechanism? what price?
 - How do we get the job finished?
- **Grind through Issue by issue**
 - Cost and programme uncertainty
 - Slow progress, constant disputes
 - Waiting for the other side to make a mistake or implode, or run out of steam.

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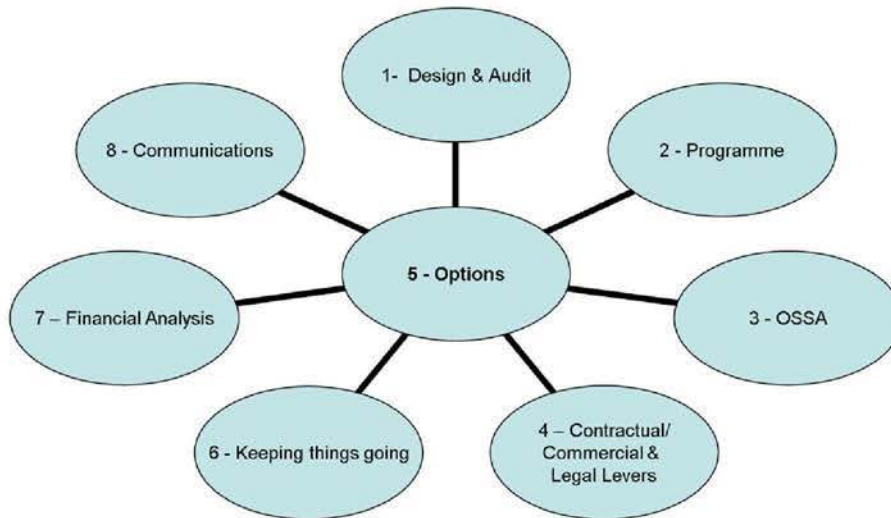
The tactics, a question of timing

- When do we declare our hand with BB? Who blinks first!
- 'we don't start negotiating until the other side are in pain'
- How do we make the non-preferred options look un-attractive to BB
- What are our tactics for achieving this?
- In the meantime we still have a contract which needs to be managed/administered?
- What is the status of the works on the ground during this period?
- Managing the buy-in of Siemens and CAF
- Press, public and political pressure

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Pitchfork – The Workstreams



Underpinned by relationships

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Pitchfork- relationships and signals

- BB
- Siemens
- CAF

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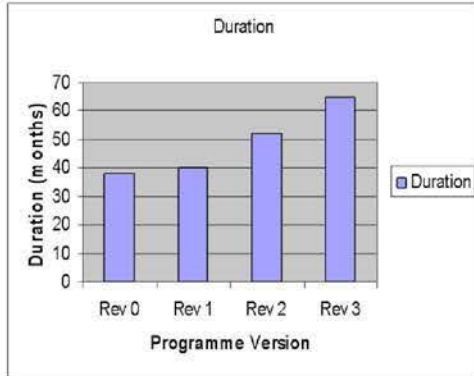
Pitchfork – Design & Audit

- Design Audit
 - Management of design process and changes
 - Best value evidence missing
 - Behaviours and co-operation
 - Delay and mitigation
 - Expert commentary on due skill and care of design activities
- Programme Audit
 - Late notifications of INTC's, estimates – BSC ignoring their culpability as part of this process
 - Reliance on utility delays
- Subcontractor Audit
 - Siemens arrangements generally ok (1 follow up)
 - Bilfinger Berger:
 - Procurement process generic and sample documents only
 - no executed subcontracts, Letters of Intent only
 - No collateral warranty arrangements in place

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Pitchfork – Programme



- 65 months against original 38 months
- **tie** has suggested a significant number of further mitigation measures to reduce overall duration
- Expect BSC to fight to retain as much of 65 months as possible
- MUDFA Rev 8 has been pushed back into dispute
- Work ongoing to assess **tie**'s overall liability for utility delays to date
- Still believe that BSC have failed in core obligations to mitigate all delays and minimise costs

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Pitchfork – On Street Works

- OSSA
- Princes Street forensics
- If we exit BB, how do we get the On Street works done?
 - What will it cost?
 - How long will it take?
 - What level of integration risk is there?

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Pitchfork – Contractual/Commercial/Legal

- The moral case- That BB have, from day 1 and consistently since then, through a combination of claiming over 500+ changes and 'holding the city to ransom' (primarily through slow progress), sought to undermine the proper operation of the contract with a view to extracting more money from the client.
- The legal case
 - Time - failure to progress the works with due expedition without just cause
 - Utilities, failure to mitigate
 - Design, abuse of schedule part 4 and clause 80
 - Money - they have sought significant additional money for issues which we believe are included in the contract price. 'This was only ever a price for a three wheeled car'
 - Absurd interpretation of schedule part 4

- SDS

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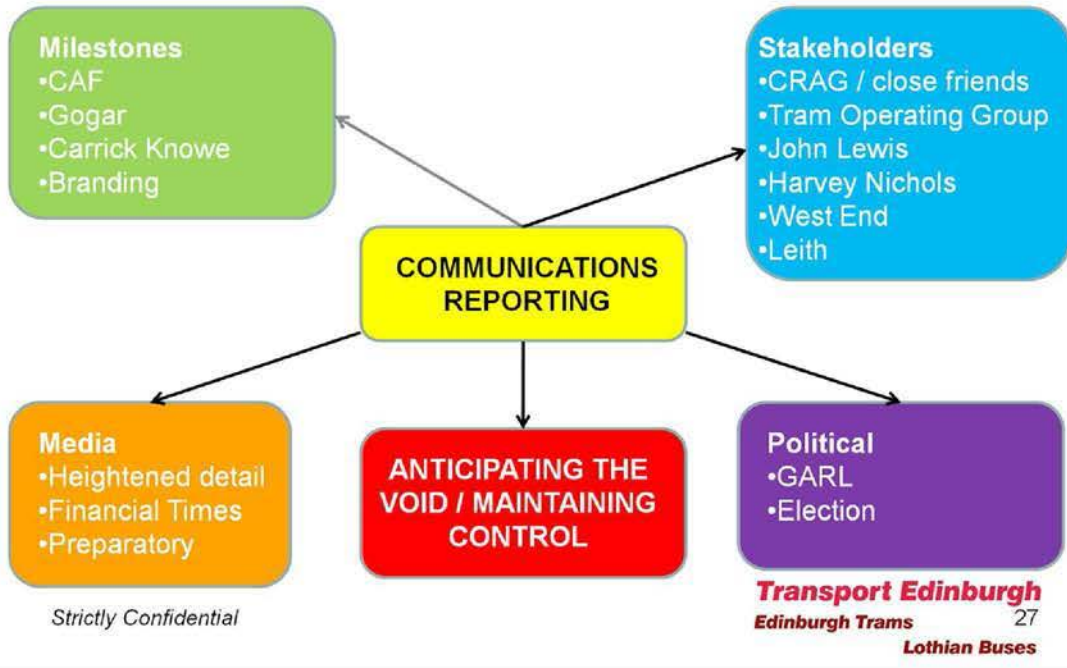
Pitchfork – Financial

- Comparative financial analysis of our options
- Embodies another refresh of the status-quo option with inherent uncertainties ('X')
- Challenges:
 - Uncertainties with other options – particularly where any re-procurement or termination is involved
 - Deliverability of options from a legal perspective
 - Affordability ceiling and finding an option which fits in £545m
 - Operational viability of any phasing / stages opening

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Pitchfork - Communications



Operation Preparedness

- BROR committee held
 - Revenue collection system shortlisting criteria reviewed;
 - Phase 2 governance reorganisation;
- Scheduling complete
(but subject to review with Rev.3 programme);
- Procurement of revenue collection system
(25 registered with 12 expressing formal interest);

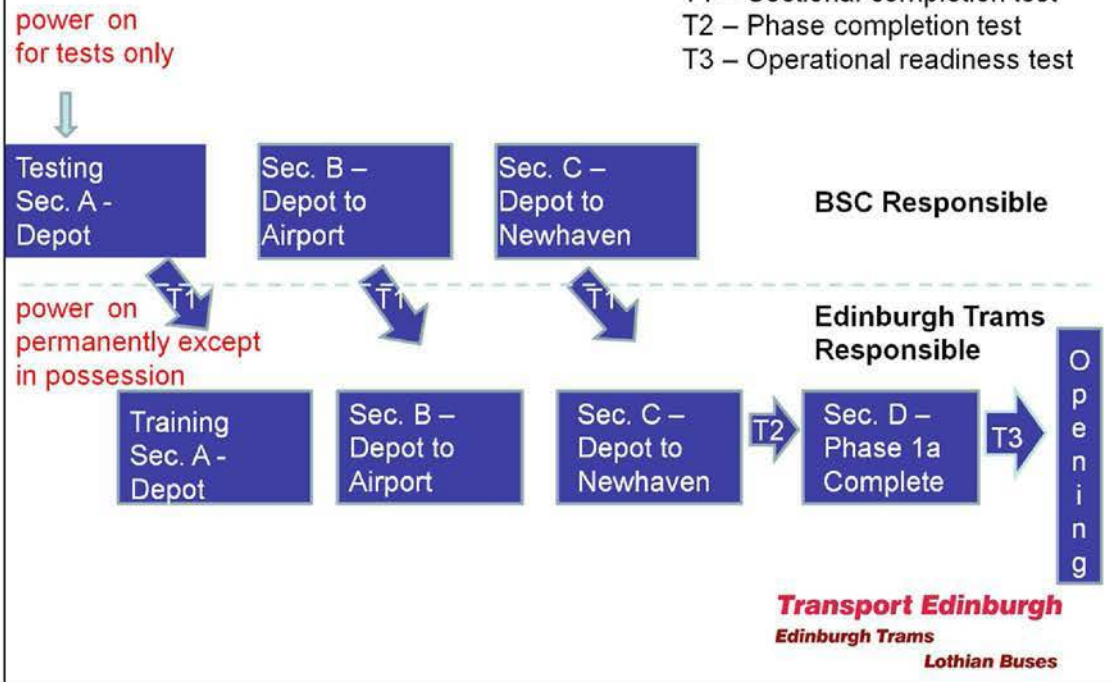


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Testing Responsibility

- T1 – Sectional completion test
- T2 – Phase completion test
- T3 – Operational readiness test



Key operations decisions

- February
 - Shortlist ticket equipment suppliers;
 - Appoint operations mobilisation coordinator;
 - Final tram branding decision;
 - Location for first tram delivery and exhibit;
 - Tramstop shelter design review;
- March
 - Terms and conditions for main operations staff;
 - Commissioning power provider selection;
- April
 - Ticket equipment procurement final tender pack ready for issue;
 - First tram delivered.

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