

West of England Waste Management and Planning Strategy

Procurement, Funding and Contract Options Appraisal

Addendum to September 2007 Report

December 2007

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Transmittal Letter

Private and confidential

17 December 2007

Ms Kate Hobson
Strategic Waste Manager
Bath & North East Somerset Council
Waste Services
Town Hall
Keynsham
BS31 1ED

Dear Ms Hobson

Procurement, Funding and Contract Options

In accordance with the terms of our engagement letter dated 16 July 2007 and your instructions on 6 December 2007 and 10 December 2007, we have prepared an Addendum to our 21 September 2007 report in relation to the Procurement, Funding and Contract Options for the West of England Waste Management Partnership's ("the Partnership") residual waste management project. The Addendum should be read conjunction with this report.

Purpose of our report and restrictions on its use

This Addendum report was prepared on your instructions solely for the purposes of the Partnership and should not be relied upon for any other purpose. Because others may seek to use it for different purposes, this report should not be quoted, referred to or shown to any other parties unless so required by court order or a regulatory authority, without our prior consent in writing. In carrying out our work and preparing our report, we have worked solely on the instructions of the Partnership and for the Partnership's purposes.

Our report may not have considered issues relevant to any third parties. Any use such third parties may choose to make of our report is entirely at their own risk and we shall have no responsibility whatsoever in relation to any such use. This report should not be provided to any third parties without our prior approval and without them recognising in writing that we assume no responsibility or liability whatsoever to them in respect of the contents of our deliverables.

Scope of our work

This Addendum report sets out a revised estimate of financial cost of the EfW technology option procured under a PFI funding and commercial structure for the Partnership's residual waste management procurement project, following receipt of revised technical cost modelling from the Partnership and its technical advisor, Jacobs UK Limited ("Jacobs"). We have not reviewed or sought to verify the accuracy of the information presented to us.

If you would like to clarify any aspect of this report or discuss other related matters then please do not hesitate to contact us.

Yours faithfully

Ernst & Young LLP

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Following the completion of our report dated 21 September 2007, it is our understanding that the Partnership's technical advisor, Jacobs has identified an error in its estimate of the operating cost of the Energy from Waste ("EfW") technology option. On 10 December 2007 the Partnership provided us with revised operating cost assumptions for the EfW technology option.

As requested by the Partnership, this Addendum sets out a cost estimate for the revised EfW technology option procured using a PFI funding and commercial structure, and is referred to in this Addendum as the "Revised EfW-PFI".

Table 1.1 below sets out the revised underlying cost assumptions provided by the Partnership and Jacobs. The revision relates to the plant Operating Expenditure cost rate ("OpEx rate"). As a consequence of this amendment, the percentage of the underlying operating cost structure that relates to labour is also subject to amendment.

Table 1.1: Revised OpEx rates, labour/non-labour percentage split

	OpEx Rate (£/tonne) ¹	Labour % ²
Original EfW – PFI (September 2007)	31.79	22.5%
Revised EfW – PFI (December 2007)	28.61	22.9%

The revised OpEx rate and labour percentage assumptions have been used to adjust the EfW shadow tariff model used in the 21 September 2007 analysis to provide a revised prediction of the price or unitary charge for the delivery of the project by the private sector under this commercial structure. The predicted cost, taking into account the factors described in Section 3.5.1 of the 21 September 2007 report is summarised in table 1.2 below.

Table 1.2: Revised EfW-PFI Nominal and NPV Cost³

Cashflows	Revised EfW – PFI		Change from 21 September 2007 report	
	Total Nominal Cost (£m)	NPV (£m)	Total Nominal Cost (£m)	NPV (£m)
Unitary Charge	939	299	(41)	(13)
Additional Costs	422	178	-	-
PFI Revenue Support ⁴	(141)	(47)	-	-

¹ Provided by the Partnership and Jacobs

² Provided by the Partnership and Jacobs

³ Presented on a basis consistent with 21 September 2007 Report tables 1.1 and 3.6

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Cashflows	Revised EfW – PFI		Change from 21 September 2007 report	
	Total Nominal Cost (£m)	NPV (£m)	Total Nominal Cost (£m)	NPV (£m)
Net Cost to the Partnership	1,220	430	(41)	(13)

Table 1.2 shows a revised total whole life nominal unitary charge of £939 million, a decrease of £41 million from the original analysis presented in the 21 September 2007 report. Table 1.3, below, updates table 1.2 of the 21 September 2007 report and shows a revised ‘funding gap’ to the Partnership of £ 274 million, after the predicted benefit of PFI Credits has been taken into account.

Table 1.3: Revised Nominal Costs, Projected Budget and Funding Gap

Option	Revised EfW - PFI (£m)	Change from 21 September 2007 report
Total nominal costs		
Net Cost to the Partnership	1,220	(41)
Projected budgets ⁵	(945)	(5)
Funding Gap	274 ⁶	(47) ⁶

Figure 1.1 below updates figure 4.1 in the 21 September 2007 report and presents the nominal cost profile of the Revised EfW-PFI solution from 2012 to 2040.

⁴ The calculation of PFI Credits has been undertaken based on 50% of the Capital Expenditure of the project, discounted at the project inflation rate and re-inflated the treasury discount rate. Subsequent to the development of the 21 September 2007 report, Defra has revised its approach to the calculation of PFI Credits for Waste PFI Projects to bring it into line with other Government departments. Capital expenditure relevant to the PFI Credit calculation will in future be calculated in accordance with Section D of CLG’s *Local Government PFI Project Support Guide 2007-08*. The calculation of PFI Credits will be confirmed by the WIDP Transactor prior to the OBC submission to DEFRA.

⁵ The Partnership’s total budget has been revised from £940 million to £945 million following review of the information received from North Somerset Council.

⁶ Due to the rounding of numbers for the purposes of the report, the Funding Gap reduction does not sum from the Net Cost reduction to the Partnership and the Project Budget figures shown in the table.

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Figure 1.1: Revised Nominal Cost Profile

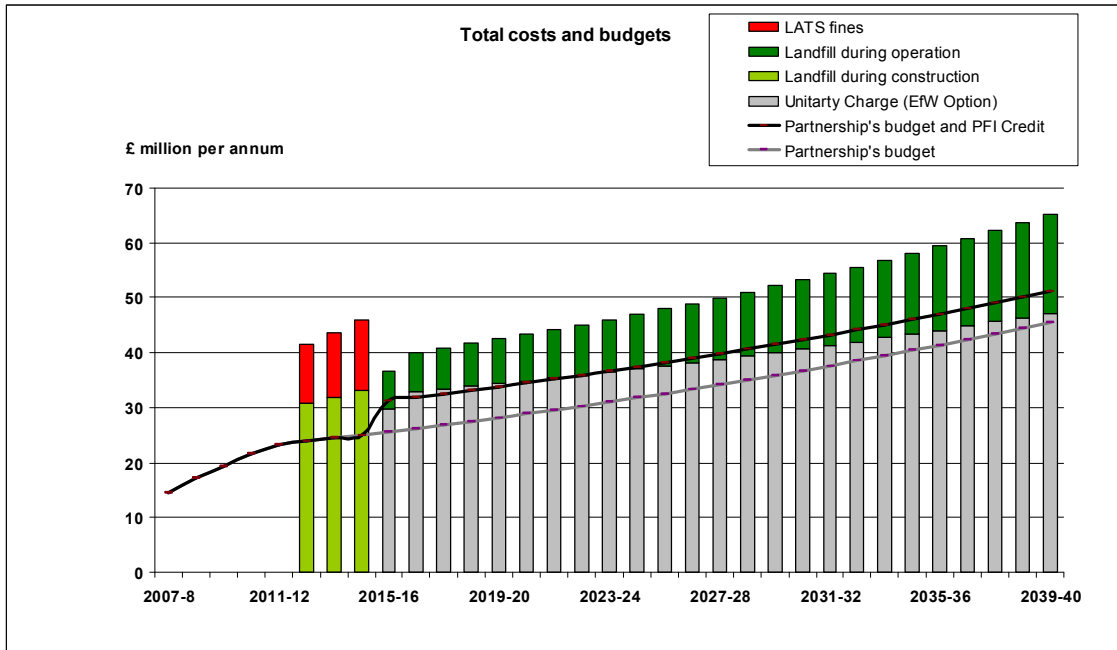


Table 1.4 shows the revised project costs, projected budgets and funding gaps for each Authority on a basis consistent with that analysis set out in table 4.2 of the 21 September 2007 report, prior to the consideration of PFI Credits.

Table 1.4 Revised Nominal Costs, Projected Budgets and Funding Gaps by Authority

Option	Bath and North East Somerset	Bristol	North Somerset	South Gloucestershire	Total
Total nominal costs (£m)					
Net Cost: Revised EfW-PFI	259	478	323	301	1,361
Projected budgets	(172)	(346)	(202)	(225)	(945)
Funding Gap: Revised EfW-PFI	87	132	121	76	416

Table 1.5, below updates table 4.3 in the 21 September 2007 report, which shows the annual cost of the Revised EfW-PFI option in the first year of operation in 2015/16 and compares this to current and future estimated budgets, before PFI Credits are taken into account.

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Table 1.5 Revised Annual Contract Costs and Budgets

Option Annual Cost (£m)	Bath and North East Somerset	Bristol	North Somerset	South Gloucestershire	Total
EfW (2015/16)	6.7	12.4	8.4	7.8	35.3
2007/08 Budget	2.6	5.8	2.8	3.5	14.7
2014/15 Budget	4.3	9.7	5.0	6.2	25.2
2015/16 Budget	4.4	9.9	5.1	6.3	25.7