



East West Link: Stage One

The PSC

Redacted version

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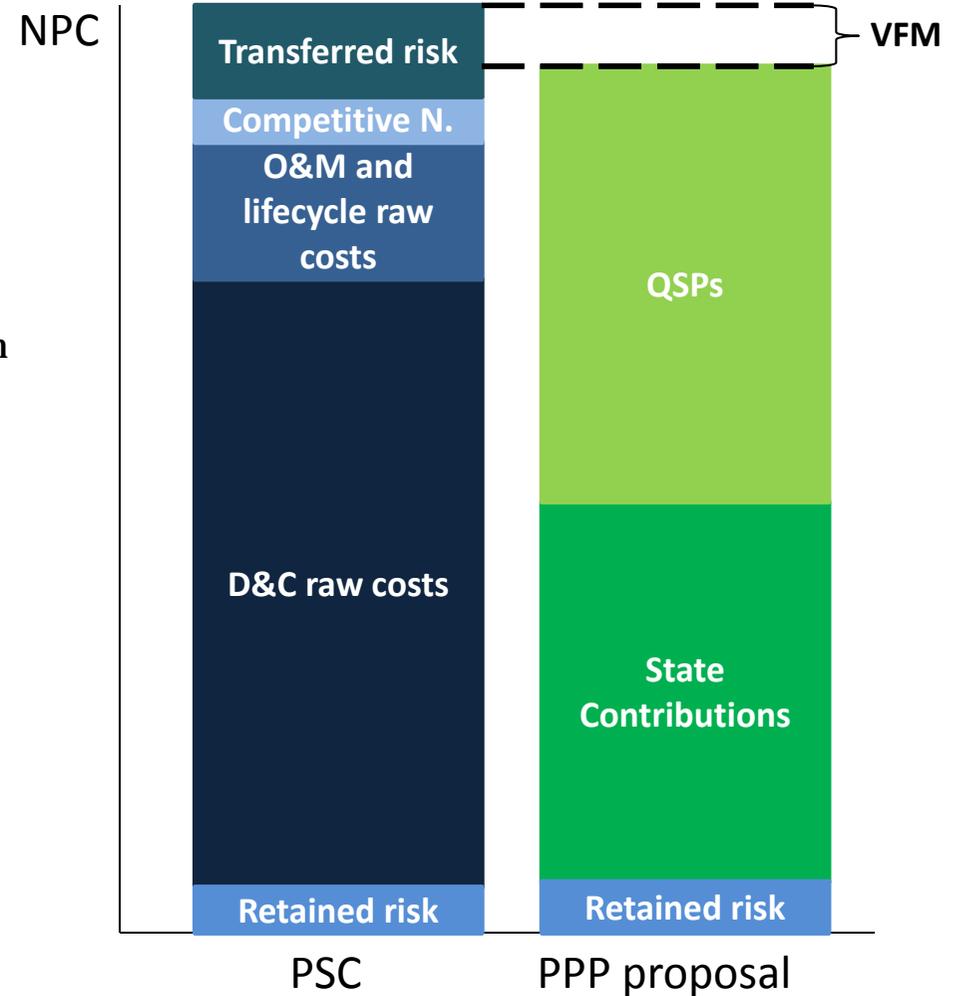
High level summary

- In March/April, the EWL Business Case supported a Budget allocation of \$[] million (nominal) for the EWL Stage One. This reflected the total nominal risk adjusted costs during the D&C period under government delivery.
- In April, BERC allocated an additional \$[]m (nominal) for Eastern Freeway upgrades, taking the full budget allocation to ***\$[] million (nominal)***.
- In April, DTF considered the financial impacts under PPP delivery, including:
 - The State contribution (assumed to be 100% contributed during the D&C phase), the value of the finance lease liability recognised when the road opens, and an estimate of how privately financed D&C plus O&M costs will translate into QSPs
 - This supported the publicly announced \$6-8 billion (nominal) cost range
- We have now:
 - Prepared the PSC: result - ***\$[] million (NPC)***
 - Reconciled the D&C costs and risks from the PSC to the Budget allocation (taking into account estimated costs of EWL Stage One delivery incurred by the State outside the PPP): result - ***\$[] million (nominal)***

General nature of a PSC

- The PSC is an “estimate of the hypothetical, whole-of-life cost of a public sector project if delivered by government”
- Its purpose is to support an assessment of the value for money offered by PPP proposals
- The PSC focuses on the parts of the project which the private sector will bid
- The PSC is calculated on an Net Present Cost basis (using the risk free rate) and includes:
 - Design and construction raw costs
 - Operations, maintenance and lifecycle raw costs
 - Competitive neutrality adjustments
 - Transferred and retained risks

Not to scale



Background

Overview of EWL Business Case cost and risk analysis

- The PSC is substantially based on the very detailed cost and risk estimating work completed to March 2013 as part of the EWL Business Case.
- This included:
 - Appointment of the JHLD-JV to develop a risk adjusted D&C cost estimate (on a fixed price, fixed time, turnkey contract basis)
 - This effectively estimated the price that a D&C contractor would bid to deliver the project (and hence addressed transferred risks under a PSC)
 - Completion of the usual risk identification and quantification workshop process adopted for the development of a PSC to:
 - identify all project risks
 - quantify those which had not been priced by JHLD-JV in their underlying estimate
 - Completion of an extensive peer review process

Background

EWL Business Case peer review process

- The peer review process included independent reviews of both the design and cost analysis, the most relevant of for the PSC were :
 - DTF appointed APP to independently peer review the risk adjusted cost estimates prepared by JHLD-JV (this noted the JHLD-JV estimate was ‘conservative’)
 - Preparation of an independent fully risk adjusted cost estimate by Aquenta (which was approximately 30% lower than the JHLD-JV estimate)
 - Second phase APP peer review of both the risk adjusted JHLD-JV and Aquenta estimates which developed a range for risk adjusted D&C (and O&M) costs

<i>\$Real 2012</i>	<i>Aquenta</i>	<i>APP low</i>	<i>APP mid</i>	<i>JHLD-JV</i>
Estimated D&C cost	\$[]bn	\$[]bn	\$[]bn	\$[]bn

- Subsequent agreement with DTF regarding the risk adjusted cost estimates adopted for budget purposes in the EWL Business Case (of ***\$[] billion (real)*** near the APP mid point)
- The updated EWL Business Case (as at June 2013) subsequently adopted the low end of the APP range for the purpose of the economic appraisal of the project

The level of rigour represented by the above far exceeds the extent of analysis and review which is typically completed when developing a final PSC, let alone at business case stage

Process for building the PSC

- Given the extensive nature of the review processes and other work completed as part of the EWL Business Case, the PSC has drawn heavily on that financial analysis
- Changes have been limited to the following:
 - Exclusion of items included in the EWL Business Case financial analysis which are not relevant to the PSC
 - Adjustments for a limited number of changes in project scope and risk in the last 5 months

Process for building the PSC

EWL Business Case items backed out

- The EWL Business Case financial analysis focussed on assessing the ‘funding gap’ between Stage One project costs and toll revenues (expressed in terms of equivalent nominal dollars over the construction period), rather than just focussing on the scope of work to be delivered via the PPP
- As such, the PSC **excludes** the following items from the EWL Business Case financial analysis (*but which, for cost items, remain relevant to the reconciliation between the PSC and the approved Stage One budget*):
 - Toll revenues
 - Toll collection costs
 - HSI costs
 - PT upgrade cost allowance
 - Eastern Freeway cost allowance
 - Other State costs (land acquisition, IR costs, contract mgt, etc)
 - Categorisation of total risk adjustments into transferred and retained risks
- The PSC is also consistent with the proposed term of the PPP (25 years’ of operations, compared to 40 years in the Business Case) and is expressed in NPC terms

Process for building the PSC

Adjustments for post EWL Business Case changes

- The PSC then includes a limited number of updates for post EWL Business Case changes:
 - Adoption of the APP 'competitive market cost' estimate for D&C
 - In light of the prevailing conditions in the Victorian construction market and the very strong competitive field evidenced by the project's EOI process (and in order to provide a more rigorous benchmark for PPP proposals)
 - This has been slightly offset by the inclusion of additional risk allowances for scope uncertainty and potential additional land acquisition costs (in light of ongoing discussions with Transurban and given the CIS process will not be completed until June/July 2014)
 - The cost of reference design enhancements recently approved by the Premier, Acting Treasurer and Minister for Roads (in response to the results of the micro-simulation modelling)
 - The cost of the MSSPC decision in relation to the EVO and adjacent properties (and re-profiling other land acquisition costs to reflect the timing of the CIS process post EWL Business Case)
 - Adoption of the APP 'high' estimate for O&M costs

Reconciliation to EWL Stage One budget

<div style="background-color: #4F81BD; color: white; padding: 5px; text-align: center;"> <i>Shading highlights PSC</i> </div>	EWL BUSINESS CASE		Budget (May BERG)	Reclassify items outside PPP scope (to State)	Adopt APP 'competitive estimate' and scope risk	Approved Ref Design enhancement	August MSSPC EVO and land acq timing	Total Rec to Budget
	D&C (Nom \$m)	O&M (NPV \$m)	D&C (Nom \$m)	D&C (Nom \$m)	D&C (Nom \$m)	D&C (Nom \$m)	D&C (Nom \$m)	D&C (Nom \$m)
<i>Toll revenues</i>								
<i>Project costs and risks</i> D&C costs O&M and lifecycle costs Toll collection costs Risks and contingencies Transferred risk Retained risk								
<i>Subtotal</i>								
State costs State procurement, mgt and land acquisition Public transport upgrades Eastern Freeway upgrades								}
<i>Subtotal</i>								
Total risk adjusted costs								
Net toll revs Equivalent to D&C costs								
Funding Gap								

The PSC result

<i>\$ millions</i>	NPC ¹	Total nominal (D&C only)	Annual cash flows					
			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
PSC								
D&C costs								
O&M costs								
Lifecycle costs								
Transferred risks								
Retained risks								
Total PSC								
State Costs								
HSI costs								
Toll collection costs								
EVO costs								
State procurement, mgt and land acquisition costs								
Public transport upgrades								
Eastern Freeway upgrades								
Total state costs								
Total Stage One								

Note 1 - Discounted using the risk free discount rate at 10 October 2013 of 4.65%, nominal

-priced options and PAMs

The RFP also includes the following priced options and PAMs (not required to be addressed in the above):

	Description	Cost estimate
Price option		
Southbound Port Connection stubs		
<i>Subtraction of the 'purple' stub</i>	Delivery of the southbound Port Connection stub over CityLink, terminating south of Mt Alexander Rd	\$[]m, nominal
<i>Addition of the 'red' stub</i>	Delivery of a longer southbound Port Connection stub, terminating at Racecourse Rd	\$[]m, nominal
PAMs		
Additional northbound lane on CityLink	Delivery of an additional northbound lane on CityLink, from Racecourse Rd through to Moreland Rd (and additional ramp metering locations)	N/a - if adopted will be funded via Project Zebra
VicTrack conduits	Design, construction and maintenance of communication sub-system for the sole use of VicTrack	N/a – if adopted will be funded by VicTrack

Priced options and PAMs

Southbound Port Connection stub options

