

## CORRESPONDENCE

From: SCC OFFICIAL  
Sent: 30 October 2013 17:15  
To: DEFRA OFFICIAL; David McNulty  
Subject: Re: Surrey Waste Management PFI Project - Proposed Contract

Variation

Dear DEFRA OFFICIAL,

Thank you for these very helpful comments. I appreciate you responding in this level of detail so quickly. Officers briefed Cabinet fully before the meeting and in the confidential Part 2, covering the issues comprehensively and including those raised in your comments.

I can confirm that the Cabinet agreed the report's recommendations and added a further one "Cabinet requires the Strategic Director of Environment and Infrastructure, Chief Finance Officer and Head of Legal and Democratic Services, in consultation with the Leader and Cabinet Member Transport, Highways and Environment, to monitor progress and report back to Cabinet in the event of material changes to the risks and assumptions identified in this report".

We expect to complete the contract variation tonight.

Best wishes

SCC OFFICIAL

From: "DEFRA OFFICIAL"  
To: DAVID McNULTY, <SCC OFFICIAL  
Date: 30/10/2013 01:22  
Subject: Surrey Waste Management PFI Project - Proposed Contract  
Variation

Dear SCC OFFICIAL and SCC OFFICIAL

Thank you for the copy of the Leader's report to your Cabinet which I received yesterday evening for information. I understand that the report is to be considered at a meeting of your Cabinet sometime tomorrow.

I have looked over the content of the report and note that the financial value-for-money assessment together with a qualitative assessment provides the basis for the recommendation to agree to the proposed Contract Variation.

However, whilst I have had no opportunity to discuss the report internally within WIDP, I do have number of key observations which I feel I should communicate to you before the meeting and which I hope you will find useful. They are as follows:

1. In view of **REDACTED COMMERCIALY SENSITIVE** , I believe it will be important that in reaching their decision your Members are aware of the full implications of Planning delay or failure. In that regard I suggest that Members will need to consider their confidence in securing a successful Planning outcome by the PLSD whilst being cognisant of the costs to the Council were the Contract then to be terminated. From documentation recently received, I understand such costs would include **REDACTED COMMERCIALY SENSITIVE** the Council would have already incurred. It would follow, too, that DEFRA would then also be likely to review and re-assess the Project as per its practice, and that could result in DEFRA's PFI support for the Project being affected. Also, if the Contract were to be terminated, it would appear that the Council would then find itself in a position where it would have to adopt the next best option (Option 2) having incurred these latter costs.
2. I note from the paper resulting from the Workshop held on 9th October that, in the context of new risk areas considered, your technical consultants advised that the opportunity to be afforded to SITA **REDACTED COMMERCIALY SENSITIVE** "is not a position that they have come across on previous projects and appears to put Surrey at an unquantifiable risk". Whilst I understand that this has been reflected in the optimism bias applied, I trust that your Members will be informed of this risk and the view of your technical advisers. Additionally, although the capital costs of the AD and gasification plants have been taken into account in the value-for-money assessment, you may wish to advise your Members that your technical consultants have observed that those costs are slightly higher than would normally be expected.
3. I hope too, in accordance with Treasury Green Book value-for-money guidance, that your Members will be advised in regard to the results of a range of outcomes arising from sensitivity testing of values of selected parameters which might prompt a change in Members' decisions, e.g., as between Options 1 and 2 would lower merchant EfW gate fees alter their decision?

I do hope these comments are of assistance.

Best wishes

DEFRA OFFICIAL

Department for Environment, Food and Rural Affairs (Defra)

END OF EMAIL CHAIN

**From:** SCC OFFICIAL  
**Sent:** 30 October 2013 17:15  
**To:** DEFRA OFFICIAL; David McNulty  
**Subject:** Re: Surrey Waste Management PFI Project - Proposed Contract Variation

Dear DEFRA OFFICIAL,

Thank you for these very helpful comments. I appreciate you responding in this level of detail so quickly. Officers briefed Cabinet fully before the meeting and in the confidential Part 2, covering the issues comprehensively and including those raised in your comments.

I can confirm that the Cabinet agreed the report's recommendations and added a further one "Cabinet requires the Strategic Director of Environment and Infrastructure, Chief Finance Officer and Head of Legal and Democratic Services, in consultation with the Leader and Cabinet Member Transport, Highways and Environment, to monitor progress and report back to Cabinet in the event of material changes to the risks and assumptions identified in this report".

We expect to complete the contract variation tonight.

Best wishes

SCC OFFICIAL

END OF EMAIL CHAIN

-----Original Message-----

**From:** SCC OFFICIAL  
**Sent:** 29 October 2013 07:39  
**To:** DEFRA OFFICIAL  
**Cc:** 4 X SCC OFFICIALS  
**Subject:** Gate fees

DEFRA OFFICIAL

I have just got the details of the commissioning gate fee from Deloitte.  
See below.

They are struggling a bit to generate a gate fee for full operation as this is not something that the financial model lends itself to easily.

This is partly because of the integrated nature of the contract with costs spread across all facilities but also the **REDACTED COMMERCIALY SENSITIVE** means that some sort of averaging would be required over the full life of the plant. However I have asked them to see what they can do.

Also I have now had a chance to read through the draft risk workshop paper that I sent to you on Friday. I have made some corrections which I have agreed with Deloitte and will send you a copy of the final risk paper today.

**REDACTED COMMERCIALY SENSITIVE**

Regards

SCC OFFICIAL

Waste Group Manager

Environment Service, Surrey County Council Tel REDACTED Fax REDACTED Mob REDACTED

END OF EMAIL CHAIN

**From:** SCC OFFICIAL

**Sent:** 29 October 2013 17:34

**To:** DEFRA OFFICIAL

**Cc:** 4 X SCC OFFICIALS

**Subject:** Fw: Final risk workshop paper

DEFRA OFFICIAL

Here is the final paper from our risk workshop. It replaces the draft that I sent to you on Friday.

**[WIDP PROGRAMME OFFICE NOTE: ATTACHMENT HAS BEEN WITHHELD AS IT IS COMERCIAALLY SENSITIVE]**

Regards

SCC OFFICIAL

Waste Group Manager

Environment Service, Surrey County Council

Tel REDACTED

Fax REDACTED

Mob REDACTED

END OF EMAIL CHAIN

**From:** SCC OFFICIAL

**Sent:** 28 October 2013 17:23

**To:** DEFRA OFFICIAL

**Cc:** SCC OFFICIAL

**Subject:** 30 Oct Cabinet report and confidential annexe - Amendment to Waste Contract

Dear DEFRA OFFICIAL,

**[WIDP PROGRAMME OFFICE NOTE: ATTACHMENTS 1 AND 2 HAVE BEEN WITHHELD AS THEY ARE COMMERCIALLY SENSITIVE]**

END OF EMAIL CHAIN

**From:** SCC OFFICIAL

**Sent:** 25 October 2013 17:33

**To:** DEFRA OFFICIAL

**Cc:** Ian Boast; Trevor Pugh; 3 X SCC OFFICIALS  
**Subject:** RE: "Optimism Bias" Workshop, 10 October 2013

DEFRA OFFICIAL

I attach the draft outputs from our Optimism Bias workshop. I will be checking them over the weekend but thought it would be helpful for you to have early sight of them

I hope to provide you with the other information that you have requested on commissioning and sensitivities by Monday next week.

**[WIDP PROGRAMME OFFICE NOTE: ATTACHMENTS HAVE BEEN WITHELD AS THEY ARE COMMERCIALY SENSITIVE]**

Regards

SCC OFFICIAL  
Waste Group Manager, Environment Service, Surrey County Council  
Tel REDACTED  
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GCSX email: REDACTED

From: DEFRA OFFICIAL  
To: SCC OFFICIAL  
Cc: SCC OFFICIAL, "Ian Boast", 2 X SCC OFFICIALS <, "Trevor Pugh"  
Date: 24/10/2013 11:22  
Subject: RE: "Optimism Bias" Workshop, 10 October 2013

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Thank you for these responses, SCC OFFICIAL.

We look forward to receiving the results of the optimism bias workshop, the commissioning gate fees' information and the results of the sensitivity testing.

Best wishes

DEFRA OFFICIAL

**From:** SCC OFFICIAL  
**Sent:** 21 October 2013 16:59  
**To:** DEFRA OFFICIAL  
**Cc:** SCC OFFICIAL, "Ian Boast", 2 X SCC OFFICIALS <, "Trevor Pugh"  
**Subject:** Re: "Optimism Bias" Workshop, 10 October 2013

DEFRA OFFICIAL

Thank you for your helpful comments. I attach our response to the points that you raised. Deloitte are currently finalising the updated Optimism Bias paper which we will share with you when completed. There is also some further information on commissioning costs which you requested and which we will send to you shortly.

Regards

SCC OFFICIAL

Waste Group Manager, Environment Service, Surrey County Council  
Tel REDACTED  
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Fax REDACTED  
email: REDACTED  
GCSX email: REDACTED

From: DEFRA OFFICIAL  
To: SCC OFFICIAL  
Cc: SCC OFFICIAL, "Ian Boast", 2 X SCC OFFICIALS <>, "Trevor Pugh" <>  
Date: 09/10/2013 13:34  
Subject: "Optimism Bias" Workshop, 10 October 2013

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Hi SCC OFFICIAL

Unfortunately, with only 24 hours' notice of your workshop tomorrow, we are unable to field any attendees.

However, it may assist your deliberations if I set out below WIDP's current position in respect of the outstanding matters having regard to the additional information you sent by way of your e-mail of 27 September (attached below) following our meeting on 9 September.

### **OPTIONS' ANALYSIS**

Based on the information you provided as attachments to your e-mail, there is still a significant number of assumptions that require further clarification. We believe that as part of your planned review of the assumptions used for the options' analysis at the workshop, it might be useful if the following are taken into consideration. We will comment further once we receive the full, up-dated list of assumptions following your workshop.

#### **Base Assumptions**

##### ***1. Electricity price***

Given that **REDACTED COMMERCIALLY SENSITIVE** (and we understand that there is little that the Council can do to incentivise the SPV to sell at a higher price), we do not understand why the usual range for this kind of analysis is not used (i.e., £ **REDACTED COMMERCIALLY SENSITIVE**). Sensitivity testing using different figures can then be used, if deemed necessary.

##### ***2. ROC income***

Given the uncertain outcome of the required OFGEM test, it would be more prudent to assume only a proportion of income or no income at all. Again sensitivity testing can be used to consider the effects of other assumptions. See also our comment on commercial issues below.

##### ***3. EfW Costs***

We do not understand why there needs to be a 3-tiered cost for the EfW merchant service (namely, Allington, merchant, and merchant far afield). Rather it seems to us that there should be only 2 types of pricing used in the analysis: 1) already contracted (the Contract price assumptions can be used until the Contract expiry date); and 2) not yet contracted (an

assumption needs to be made on the likely gate fee and haulage for this service). Sensitivity tests can be carried out to reflect a different range of prices below the landfill cost. In this context, consideration needs to be given to the prospect that at some pricing point, additional recycling (to the extent possible) might be more cost effective and that this will be the maximum EfW gate fee.

#### **4. Inflation**

Usually 2.5% inflation assumption is used unless specified differently under the Contract or specifically justified otherwise.

#### **5. Termination Cost**

Given that the quantum might be significant, it is important that the figure used is based on the advice from both legal and financial advisers. The figure used should have a high confidence level of being correct.

#### **Optimism Bias**

It would be useful to have an overview on all optimism bias added to each option (and the corresponding rationale). This, we believe, needs to come out from your workshop.

Particular items needing further explanation include:

##### **1. EfW/landfill cost**

Some figures were provided in the spreadsheet. It would be useful to understand what they mean or how they are used/added to the cost.

##### **2. Termination cost**

As discussed previously

##### **3. Handback/residual value risk (option 1)**

##### **4. Future operating cost risk**

#### **OTHER OUTSTANDING COMMERCIAL ISSUES**

It would be useful if WIDP's commercial team might have the meeting you were previously seeking set up soon to discuss the outstanding commercial points (not necessarily linked to the options' analysis) including:

##### **1. Commissioning Gate Fee**

Some data are provided in the spreadsheet. We need to understand

- a. how this compares to the full gate fee
- b. how this compares to the alternative disposal cost
- c. the maximum period for commissioning

##### **2. ROC as part of Acceptance test**

Need to understand what will happen if the plant is not accepted.

3. Other issues outlined in your responses attached to your e-mail below including funding and refinancing, EPC LDs, etc.

We hope the above is useful and look forward to hearing further from you in the light of your workshop.

Best wishes

END OF EMAIL CHAIN

**From:** SCC OFFICIAL  
**Sent:** 21 October 2013 16:59  
**To:** DEFRA OFFICIAL  
**Cc:** Ian Boast; Trevor Pugh; 3 X SCC OFFICIALS  
**Subject:** Re: "Optimism Bias" Workshop, 10 October 2013

DEFRA OFFICIAL

Thank you for your helpful comments. I attach our response to the points that you raised. Deloitte are currently finalising the updated Optimism Bias paper which we will share with you when completed. There is also some further information on commissioning costs which you requested and which we will send to you shortly.

Regards

SCC OFFICIAL  
Waste Group Manager, Environment Service, Surrey County Council  
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ATTACHMENT

**REDACTED COMMERCIALY SENSITIVE**

END OF EMAIL CHAIN

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**From:** WIDP Programme Office  
**Sent:** 18 October 2013 13:39  
**To:** DAVID McNULTY  
**Cc:** IAN BOAST; DEFRA OFFICIAL  
**Subject:** Review of Norfolk County Council Waste Infrastructure Credits (WIC) Surrey

Please see attached letter from Nigel Atkinson

WIDP Programme Office

[WIDP PROGRAMME NOTE: ATTACHMENT SAYS





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for Environment  
Food & Rural Affairs

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David McNulty  
Chief Executive  
Surrey County Council  
County Hall  
Penrhyn Road  
Kingston-on-Thames  
Surrey  
KT1 2DJ

18 October 2013

[david.mcnulty@surreycc.gov.uk](mailto:david.mcnulty@surreycc.gov.uk)

Dear Mr McNulty

**Review of Norfolk County Council Waste Infrastructure Credits (WIC)**

I am writing to let you know that following a review of the WIC allocated to the Norfolk County Council (NCC) residual waste infrastructure project, Ministers have decided to withdraw the award of funding to the project.

The review was prompted by a breach of the terms and conditions under which funding was originally agreed. Ministers considered the full range of relevant factors, including the likelihood of England making the necessary contribution towards meeting the UK's 2020 EU Landfill Directive target for the diversion of biodegradable municipal waste from landfill. Based on the most recent analysis and all the relevant evidence, Ministers concluded that it is sufficiently likely that the target will be met without a contribution from the NCC project.

The decision has not been taken lightly and has been made on its own merits. I would like to reassure you that there is no impact on those projects that continue to meet the terms and conditions under which funding was originally agreed. I can also reassure you that technical support and guidance will continue to be available to your project from the Waste Infrastructure Delivery Programme (WIDP).

Our latest forecast of 2020 waste arisings and treatment capacity is available on our

website at: <https://www.gov.uk/government/policies/reducing-and-managing-waste/supporting-pages/waste-infrastructure-delivery-programme>

Yours sincerely

Nigel Atkinson  
Programme Director

Waste Infrastructure Delivery Programme (WIDP)

Email: [widp.programmeoffice@defra.gsi.gov.uk](mailto:widp.programmeoffice@defra.gsi.gov.uk)

Cc Ian Boast, Surrey County Council  
Cc WIDP programme office  
Cc DEFRA OFFICIAL, WIDP Transactor

END OF EMAIL CHAIN

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**From:** DEFRA OFFICIAL

**Sent:** 17 October 2013 16:49

**To:** DEFRA OFFICIAL

**Subject:** RE: ACTION by 22 October: Special Data Request - Waste PFI Jobs

Hi DEFRA OFFICIAL

The position is as you suggest.

Until negotiations are concluded in respect of the proposed Variation, it would be difficult to add to the information you have already. This could emerge in the next few weeks/months.

Best wishes

DEFRA OFFICIAL

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END OF EMAIL CHAIN