

CONFORMED COPY
OF THE PRINCIPAL CONTRACT DATED 31ST MARCH 2003
AND THE AMENDMENTS TO THE PRINCIPAL CONTRACT
PURSUANT TO THE DEED OF AMENDMENT DATED 28TH MAY 2003

SCHEDULE 24
FINANCIAL MODEL PROTOCOL

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Schedule 24A

Protocol for Adjusting the Base Financial Model to Calculate Changes to the Unitary Charge as Results of Council Risk Events

1. Introduction

1.1 This protocol sets out the method for adjusting the Base Financial Model to calculate changes to the Unitary Charge pursuant to any Council Risk Event.

2. The Nature and Timing of the Adjustment to the Unitary Charge

2.1 In the case of Council Risk Events pursuant to clauses 16 and 25 (Compensation Event and Changes in Law) the adjustment to the Unitary Charge will be included in Working Model 2 with effect from the start of the first model period commencing after the determination of the Estimated Revised Project Costs.

2.2 In the case of Council Risk Events pursuant to clause 24.1 (Council Changes to the Works and Services) the adjustment to the Unitary Charge will be included in Working Model 2 with effect from the planned date of certification of completion of the Council Change.

2.3 In the case of Council Risk Events pursuant to any other provision of the Principal Contract the adjustment to the Unitary Charge shall be included in Working Model 2 with effect from the start of the first model period commencing after the agreement or determination of the Estimated Revised Project Costs.

2.4 The adjustment to the Unitary Charge shall be made to the element or elements of the Unitary Charge so as to maintain the same level of risk of future mismatches between the Contractor's revenue and costs.

2.5 The adjustment to the Unitary Charge shall be the minimum required to maintain the same IRR between Working Model 1 and Working Model 2 after reflecting all Estimated Revised Project Costs.

3. Estimated Revised Project Costs

3.1 The Estimated Revised Project Costs shall be the aggregate of the Cash Inflows and Cash Outflows arising over the remainder of the Contract Period as a direct result of the Adjustment Event, quantified in accordance with clause 3.2 and 3.3 of this Schedule 24A.

- 3.2 The Cash Inflows resulting from an Adjustment Event shall be calculated as the aggregate of:
- 3.2.1 changes in the projected financing cashflows receivable by the Contractor forecast on the assumption that funding is drawn down from existing unallocated facilities to the maximum extent available;
 - 3.2.2 changes in the projected income of the Contractor to be received from third parties.
- 3.3 The Cash Outflows resulting from an Adjustment Event shall be calculated as the aggregate of:
- 3.3.1 changes in the projected Capital expenditure of the Contractor;
 - 3.3.2 changes in the projected Operating expenditure of the Contractor.
 - 3.3.3 changes in the projected tax payable or receivable calculated using the same tax assumptions used within the Base Financial Model;
- 3.4 The Contractor should use all best endeavours to minimise the Estimated Revised Projected Costs arising from the Council Risk Event.

4. **Updating the Base Financial Model**

- 4.1 The Base Financial Model shall firstly be amended solely to reflect the actual annual Contract Waste volumes in all completed model periods; (by amending the relevant inputs in row 205 of worksheets “WFH”, “WFHM”, “WFM”, “WFL” and “WFB” of workbook Onyx Base Case Inputs.xls).
- 4.2 Where the changes to the Contract Waste figures pursuant to clause 4.1 would otherwise result in the Contract Waste volumes in Working Model 1 exceeding 550,000 tonnes per annum, in any waste growth scenario, then the Contract Waste figure for the relevant period shall be input as 550,000.
- 4.3 The model produced pursuant to clause 4.1. (Working Model 1) shall be made available to the Councils. The Contractor and the Councils shall meet to review Working Model 1 and specifically to agree:
- 4.3.1 The changes made to the Base Financial Model to produce Working Model 1.
 - 4.3.2 The relevant Estimate Revised Project Costs to be included in Working Model 2;

- 4.3.3 The date on which the adjustment to the Unitary Charge shall be assumed to be effective in Working Model 2
- 4.3.4 The nature of the change to the Unitary Charge taking into account the provisions of clauses 2.4 and 2.5 of this Schedule
- 4.3.5 The IRR calculated within Working Model 1;
- 4.4 Following agreement of the issues listed in paragraph 4.3 Working Model 2 shall be produced by amending Working Model 1 to reflect the Estimated Revised Project Costs and any change to the Unitary Charge required to ensure that the IRR in Working Model 2 is the same as that reflected in Working Model 1, for the Base Case Waste Growth Scenario.
- 4.5 The model produced pursuant to clause 4.4. (Working Model 2) shall be made available by the Contractor to the Councils together with :
 - 4.5.1 a detailed commentary on any new workings introduced into the Model 1;
 - 4.5.2 a updated detailed model specification;
 - 4.5.3 a full substantiation of all Estimated Revised Project Costs;
- 4.6 The Councils shall be entitled to request any additional information that they may reasonably require to obtain a full understanding of the calculation of the adjustment of the Unitary Charge provide that any request must be made within 20 Business Days of receipt of the last information required from the Contractor under clause 4.5.
- 4.7 The Contractor and the Councils shall meet to review Working Model 2 and specifically to agree the adjustment to the Unitary Charge.
- 4.8 Once the adjustment to the Unitary Charge has been agreed or determined Working Model 2 shall become the Base Financial Model.

5. **Modelling Assumptions**

- 5.1 The Contractor must prepare Working Models 1 and 2 on a basis consistent with the Base Financial Model i.e.
 - 5.1.1 for the purposes of discounting cashflows all cashflows should be assumed to occur mid period;
 - 5.1.2 all financial projections should be rounded to the nearest unit;

- 5.1.3 all input data should be expressed in 1st January 2001 prices;
 - 5.1.4 the inflation rates assumed for each model period during the Contract period;
 - 5.1.5 no sheets or cells should be hidden or password protected;
 - 5.1.6 all input cells or hard coded entry cells should be highlighted in yellow;
 - 5.1.7 no macros should be used apart from a macro set up to print all sheets, unless specifically agreed between the parties;
 - 5.1.8 the model periods should be the same as shown in the Base Financial Model;
 - 5.1.9 assumptions regarding VAT should be the same in the Base Financial Model;
 - 5.1.10 tax assumptions should be the same as used in the Base Financial Model;
 - 5.1.11 the IRR should be calculated on the same basis as the calculation of the IRR in the Base Financial Model.
- 5.2 The Contractor shall submit the Working Models in both electronic and hard copy format. The electronic format of the Working Models must be unprotected and allow all formulas to be seen.
6. **General**
- 6.1 Any disputes arising under this schedule will be determined in accordance with **clause70** (Dispute Resolution).

6.2 Where not specified in the Contract, timescales for completion of financial models and agreement of changes will be determined by consultation between the Councils and Contractor.

Definitions

“Council Risk Event” – an event giving rise to an adjustment to the Unitary Charge pursuant to any of:

- Clause 8A (Land costs at Newhaven)
- Clause 8B (Costs at Pebsham)
- Clause 16 (Compensation Event)
- Clause 25 (Changes in Law);
- Clause 24 (Council Changes to the Works or Services)
- Clauses 8A and 8B (Off site planning Costs)
- Clauses 8A and 8B (CPO Costs)

“Operating expenditure” - any expenditure incurred by the Contractor accepted as operating expenditure under normal accounting principles generally accepted and applied in the United Kingdom and, in the case of expenditure in relation to services provided by Onyx South Downs Limited, including a margin of 10% on the costs incurred by Onyx South Downs Limited.

“IRR” - the nominal post-tax internal project rate of return calculated in accordance with the formulae and assumptions used to generate the figure appearing in Cell R16 of Worksheet “Summary” of workbook “Onyx Base Case Financial.xls” of the Financial Model”.

“Estimated Revised Project Costs” - Changes to the inputs to the Base Financial Model required under Schedule 24A.

Schedule 24B

Protocol for Adjusting the Base Financial Model to Calculate Changes to the Unitary Charge as a Result of Shared Risk Events.

1. Introduction

1.1 This protocol sets out the method for adjusting the Base Financial Model to calculate changes to the Unitary Charge pursuant to any Shared Risk Events.

2. The Nature and Timing of the Adjustment to the Unitary Charge

2.1 In the case of Shared Risk Events pursuant to clause 24.2 (Contractor Changes to the Works and Services) the adjustment to the Unitary Charge will be included in Working Models 2 and 3 with effect from the planned date of certification of completion of the Contractor Change.

2.2 In the case of Shared Risk Events pursuant to any other provision of the Principal Contract the adjustment to the Unitary Charge shall be included in Working Models 2 and 3 with effect from the start of the first model period commencing after the agreement or determination of the Estimated Revised Project Costs.

2.3 The adjustment to the Unitary Charge shall be made to the element or elements of the Unitary Charge so as to maintain the same level of risk of future mismatches between the Contractor's revenue and costs.

2.4 The pre-sharing adjustment to the Unitary Payment shall be the minimum required to maintain the same IRR between Working Model 1 and Working Model 2 before reflecting the impact of the Contractor's Risk Share.

3. Estimated Revised Project Costs

3.1 The Estimated Revised Project Costs shall be the aggregate of the Cash Inflows and Cash Outflows arising over the remainder of the Contract Period as a direct result of the Shared Risk Event, quantified in accordance with clauses 3.2 and 3.3 of this Schedule 24B.

3.2 The Cash Inflows resulting from a Shared Risk Event shall be calculated as the aggregate of:

- 3.2.1 changes in the projected financing cashflows receivable by the Contractor forecast on the assumption that funding is drawn down from existing unallocated facilities to the maximum extent available;
 - 3.2.2 changes in the projected income of the Contractor to be received from third parties.
- 3.3 The Cash Outflows resulting from an Council Risk Event shall be calculated as the aggregate of:
- 3.3.1 changes in the projected Capital expenditure of the Contractor;
 - 3.3.2 changes in the projected Operating expenditure of the Contractor.
 - 3.3.3 changes in the projected tax payable or receivable calculated using the same tax assumptions used within the Base Financial Model;
- 3.4 The Contractor should use all best endeavours to minimise the Estimated Revised Projected Costs arising from the Shared Risk Event.

4. **Updating the Base Financial Model**

- 4.1 The Base Financial Model shall firstly be amended solely to reflect the actual annual Contract Waste volumes in all completed model periods (by amending the relevant inputs in row 205 of worksheets “WFH”, “WFHM”, “WFM”, “WFL” and “WFB” of workbook “Onyx Base Case Inputs.xls”).
- 4.2 Where the changes to the Contract Waste figures pursuant to clause 4.1 would otherwise result in the Contract Waste volumes in Working Model 1 exceeding 550,000 tonnes per annum, in any waste growth scenario, then the Contract Waste figure for the relevant period shall be input as 550,000.
- 4.3 The model produced pursuant to clause 4.1. (Working Model 1) shall be made available to the Councils. The Contractor and the Councils shall meet to review Working Model 1 and specifically to agree:
- 4.3.1 The changes made to the Base Financial Model to produce Working Model 1.
 - 4.3.2 The relevant Estimate Revised Project Costs to be included in Working Model 2;
 - 4.3.3 The date on which the adjustment to the Unitary Charge shall be assumed to be effective in Working Model 3.

- 4.3.4 The nature of the change to the Unitary Charge taking into account the provisions of clauses 2.3 and 2.4 of this Schedule.
- 4.4 Following agreement of the issues listed in paragraph 4.3 Working Model 2 shall be produced by amending Working Model 1 to reflect the Estimated Revised Project Costs with no adjustment to the Unitary Charge.
- 4.5 The model produced pursuant to clause 4.4. (Working Model 2) shall be made available by the Contractor to the Councils together with:
- 4.5.1 a detailed commentary on any new workings introduced into the Model 1;
- 4.5.2 a updated detailed model specification;
- 4.5.3 a full substantiation of all Estimated Revised Project Costs;
- 4.6 The Councils shall be entitled to request any additional information that they may reasonably require to obtain a full understanding of the calculation of the adjustment of the Unitary Charge provide that any request must be made within 20 Business Days of receipt of the last information required from the Contractor under clause 4.5.
- 4.7 The Contractor and the Councils shall meet to review Working Model 2 and specifically to agree the IRR to be used in the calculation required under clause 4.8.
- 4.8 Once the IRR for Working Model 2 has been agreed or determined Working Model 3 shall be produced by adjusting the Unitary Charge in Working Model 2 so that the IRR in the Base Case Growth Scenario in Working Model 3 is equal to:
- $$\text{IRR in Model 1} + ((\text{IRR in Model 2} - \text{IRR in Model 1}) \times \text{Contractor's Risk Share})$$
- 4.9 Once the post-sharing adjustment to the Unitary Charge has been agreed or determined Working Model 3 shall become the Base Financial Model.

5. **Modelling Assumptions**

- 5.1 The Contractor must prepare Working Models 1, 2 and 3 on a basis consistent with the Base Financial Model i.e.
- 5.1.1 for the purposes of discounting cashflows all cashflows should be assumed to occur mid period;
- 5.1.2 all financial projections should be rounded to the nearest unit;
- 5.1.3 all input data should be expressed in 1st January 2001 prices;

- 5.1.4 the inflation rates assumed for each model period during the Contract period;
 - 5.1.5 no sheets or cells should be hidden or password protected;
 - 5.1.6 all input cells or hard coded entry cells should be highlighted in yellow;
 - 5.1.7 no macros should be used apart from a macro set up to print all sheets, unless specifically agreed between the parties;
 - 5.1.8 the model periods should be the same as shown in the Base Financial Model;
 - 5.1.9 assumptions regarding VAT should be the same in the Base Financial Model;
 - 5.1.10 tax assumptions should be the same as used in the Base Financial Model;
 - 5.1.11 the IRR should be calculated on the same basis as the calculation of the IRR in the Base Financial Model.
- 5.2 The Contractor shall submit all Working Models in both electronic and hard copy format. The electronic format of the Working Models must be unprotected and allow all formulas to be seen.
6. **General**
- 6.1 Any disputes arising under this schedule will be determined in accordance with **Clause 70** (Dispute Resolution).
- 6.2 Where not specified in the Contract, timescales for completion of financial models and agreement of changes will be determined by consultation between the Councils and Contractor.

Definitions

“Shared Risk Events” – an event giving rise to an adjustment to the Unitary Charge pursuant to any of :

- Schedule 43 (Savings on Cost of EfW)
- Clauses 8A, 8B, 9A and 9B (Planning Appeal Costs and PPC Appeal Costs);
- Clause 24.2 (Contractor Change)

- Clause 30 (Benchmarking)

“Contractor’s Risk Share” – 25% in respect of Shared Risk Events pursuant to Schedule 43 (Savings on Cost of EfW), 10% in respect of Shared Risk Events pursuant to Clauses 8A, 8B, 9A and 9B (Planning Appeal Cost and PPC Appeal Costs), 50% in respect of Shared Risk Events pursuant to Clause 24.2 (Contractor change).

“Operating expenditure” - any expenditure incurred by the Contractor, accepted as operating expenditure under normal accounting principles generally accepted and applied in the United Kingdom and in the case of expenditure in relation to services provided by Onyx South Downs Limited, including a margin of 10% on the costs incurred by Onyx South Downs Limited.

“IRR” - the nominal post-tax internal project rate of return calculated in accordance with the formulae and assumptions used to generate the figure appearing in Cell R16 of Worksheet “Summary” of workbook “Onyx Base Case Financial.xls” of the Financial Model”.

“Estimated Revised Project Costs” - Changes to the inputs to the Base Financial Model required under Schedule 24B.

Schedule 24C

Protocol for Adjusting the Base Financial Model to Calculate the Change to the Contract Period Required as a Result of a Contract Extension Event.

1. Introduction

1.1 This protocol sets out the method for adjusting the Base Financial Model to calculate the change to the Contract Period resulting from a Contract Extension Event.

2. The Change to the Contract Period

2.1 The extension to the Contract Period shall be the minimum required to maintain the same IRR between the Final Working Model and the Working Model 2 after reflecting all Rescheduled Project Costs.

3. Rescheduled Project Costs

3.1 The Estimated Revised Project Costs shall be the aggregate of the Cash Inflows and Cash Outflows arising over the remainder of the Contract Period as a direct result of the Adjustment Event, quantified in accordance with clauses 3.2 and 3.3 of this Schedule 24C.

3.2 The Cash Inflows resulting from an Adjustment Event shall be calculated as the aggregate of:

3.2.1 changes in the projected financing cashflows receivable by the Contractor forecast on the assumption that funding is drawn down from existing unallocated facilities to the maximum extent available;

3.2.2 changes in the projected income of the Contractor to be received from third parties.

3.3 The Cash Outflows resulting from an Adjustment Event shall be calculated as the aggregate of:

3.3.1 changes in the projected Capital expenditure of the Contractor;

3.3.2 changes in the projected Operating expenditure of the Contractor.

3.3.3 changes in the projected tax payable or receivable calculated using the same tax assumptions used within the Base Financial Model;

4. **Updating the Base Financial Model**

4.1 The Base Financial Model shall firstly be amended solely to reflect the actual annual Contract Waste volumes in all completed model periods (by amending the relevant inputs in row 205 of worksheets “WFH”, “WFHM”, “WFM”, “WFL” and “WFB” of workbook “Onyx Base Case Inputs.xls”).

4.2 Where the changes to the Contract Waste figures pursuant to clause 4.1 would otherwise result in the Contract Waste volumes in Working Model 1 exceeding 550,000 tonnes per annum, in any waste growth scenario, then the Contract Waste figure for the relevant period shall be input as 550,000.

4.3 The Base Financial Model shall also be amended to reflect the Rescheduled Project Costs and a change to the Contract Period equal to the Planning Delay Period to generate Working Model 1. During any extension of the Contract Period the Unitary Charge shall be included in the model calculated in accordance with Schedules 6 and 12.

4.4 Working Model 1 shall be made available to the Councils together with:

4.4.1 a detailed commentary on the timing of the Rescheduled Project Costs;

4.4.2 a updated detailed model specification;

4.5 The Contractor and the Councils shall meet to review Working Model 1 and specifically to agree:

4.5.1 The timing of the Rescheduled Project Costs.

4.5.2 Whether the IRR in Working Model 1 is the less than, the same as, or greater than the IRR in the Base Financial Model.

4.6 If the IRR in Working Model 1 is greater than or less than the IRR in the Base Financial Model then the Contractor shall produce Working Model 2 by amending the Contract Period so that the IRR in Working Model 2 is the same as in the Base Financial Model

4.7 Working Model 2 shall be made available by the Contractor to the Councils together with:

4.7.1 a detailed commentary on the timing of the Rescheduled Project Costs;

4.7.2 a updated detailed model specification;

- 4.8 The Councils shall be entitled to request any additional information that they may reasonably require to obtain a full understanding of the calculation of the period of the extension to Contract Period provided that any request must be made within 20 Business Days of receipt of the last information required from the Contractor under clause 4.7.
- 4.9 The Contractor and the Councils shall meet to review Working Model 2 and specifically to agree the period of the extension to Contract Period.
- 4.10 Once the adjustment to the Contract Period has been agreed or determined Working Model 2 shall become the Base Financial Model.

5. **Modelling Assumptions**

- 5.1 The Contractor must prepare Working Models 1 and 2 on a basis consistent with the Base Financial Model i.e.
- 5.1.1 for the purposes of discounting cashflows all cashflows should be assumed to occur mid period;
 - 5.1.2 all financial projections should be rounded to the nearest unit;
 - 5.1.3 all input data should be expressed in 1st January 2001 prices;
 - 5.1.4 the inflation rates assumed for each model period during the Contract period;
 - 5.1.5 no sheets or cells should be hidden or password protected;
 - 5.1.6 all input cells or hard coded entry cells should be highlighted in yellow;
 - 5.1.7 no macros should be used apart from a macro set up to print all sheets, unless specifically agreed between the parties;
 - 5.1.8 the model periods should be the same as shown in the Base Financial Model;
 - 5.1.9 assumptions regarding VAT should be the same in the Base Financial Model;
 - 5.1.10 tax assumptions should be the same as used in the Base Financial Model;
 - 5.1.11 the IRR should be calculated on the same basis as the calculation of the IRR in the Base Financial Model.

5.2 The Contractor shall submit the Working Models in both electronic and hard copy format. The electronic format of the Working Models must be unprotected and allow all formulas to be seen.

6. General

6.1 Any disputes arising under this schedule will be determined in accordance with **clause 70** (Dispute Resolution).

6.2 Where not specified in the Contract, timescales for completion of financial models and agreement of changes will be determined by consultation between the Councils and Contractor.

Definitions

“Contract Extension Event” – an event giving rise to an extension to the Contract Period pursuant to any of:

- Clause 8A (Planning Delay at Newhaven)
- Clause 8B (Planning Delay at Pebsham)

“IRR” - the nominal post-tax internal project rate of return calculated in accordance with the formulae and assumptions used to generate the figure appearing in Cell R16 of Worksheet “Summary” of workbook “Onyx Base Case financial.xls of the Financial Model”.

“Rescheduled Project Costs” - the cost and other inputs to the Base Financial Model after reflecting any rescheduling directly attributable to the Planning Delay.