Ontario

INFRASTRUCTURE ONTARIO

VALUE FOR MONEY ASSESSMENT

THE WINDSOR-ESSEX PARKWAY

KPMG

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Infrastructure Ontario
777 Bay Street
Toronto, Ontario
M5G 2C8
Attn: Jim Cahill

Re: Final Value for Money Assessment – Windsor Essex Parkway

Dear Mr. Cahill:

KPMG LLP ("KPMG") has prepared the Value for Money ("VFM") assessment for the Windsor Essex Parkway Project ("Project") at the Financial Close stage, in accordance with our letter of engagement with Infrastructure Ontario ("IO") and IO's methodology *Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology*. This methodology is consistent with approaches used in other jurisdictions.

The VFM assessment is based on a comparison of the total project costs at the Financial Close Date for the Project under:

1. The traditional delivery approach, as reflected in the Public Sector Comparator ("PSC") model; and

2. The Alternative Finance and Procurement approach ("AFP"), incorporating the Successful Bidder's proposed costs.

The VFM assessment was calculated using the following information (collectively the "Information") within the VFM model:

i. A Risk Matrix developed for IO by Altus Group and adapted by IO to reflect Project specific risks;

ii. Cost and other input assumptions extracted from the bid submitted by the Successful Bidder and other VFM model assumptions as provided by IO; and

iii. Value of OM&R Payments and Substantial Completion Payments extracted from the bid submitted by the Successful Bidder as well as other assumptions developed by IO for the adjusted preferred bid.

We have not audited or attempted to independently verify the reasonableness, accuracy or completeness of the Information.

KPMG

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Based on our understanding of IO's VFM methodology, we can confirm that, the Information has been appropriately used in the VFM model, and that the VFM assessment demonstrates the AFP approach provides estimated cost savings of 15.01% in comparison to the traditional delivery approach.

Yours very truly

Will Lipson

KPMG LLP

Will Lipson
Managing Director
Toronto, Ontario
February 1, 2011

P1 Consulting

January 24, 2011

Mr. Tariq Taherbhai
Vice President, Project Legal Services
Infrastructure Ontario
777 Bay Street, 6th Floor
Toronto, Ontario M5G 2C8

Subject: Windsor Essex Parkway Project RFP OIPC-09-54-1007

Dear Mr. Taherbhai:

P1-Consulting acted as the Fairness Monitor to review and monitor the communications, evaluations and decision-making processes that were associated with the procurement process for the **Winsor Essex Parkway Project** in terms of ensuring fairness, equity, objectivity, transparency and adequate documentation of the evaluation process.

The primary objective of the Windsor Essex Parkway Project is to connect Highway 401 in Ontario to a new international crossing over the Detroit River to Interstate 75 in Michigan on the American side of the border while incorporating private sector innovation and expertise, using Infrastructure Ontario's DBFM model. The RFP process was used to select a pre-qualified proponent to design, build, finance, and maintain the Parkway project.

The Windsor-Essex Parkway is described as the single largest highway investment in Ontario's history. The construction aspects of the project are described as the route being a below grade, six-lane highway, 11 kilometres long with 11 tunnels and a four-lane service road. Other components of the project include community and environmental features, such as:

- 300 acres of green space
- 20 kilometres of recreational trails
- Extensive landscaping throughout the corridor
- Noise and environmental mitigation measures

In our role as Fairness Monitor, P1 Consulting made certain that the following steps were taken to ensure a fair and open process:

- Compliance with the requisite procurement policies and procedures and the laws of tendering for the acquisition of services relating to public sector procurement;
- Adherence to confidentiality of bids, as applicable, and the evaluation process;
- Objectivity and diligence during the procurement process in order to ensure that it was conducted in an open and transparent manner;

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P1 Consulting Inc.

- Proper definition and use of evaluation procedures and assessment tools in order to ensure that the process was unbiased;
- Compliance of project participants with strict requirements of conflict of interest and confidentiality during the procurement and evaluation processes;
- Security of information;
- Prevention of any conflict of interest amongst evaluators on the selection committee; and
- Oversight to provide a process where all Bidders were treated fairly.

The Fairness Monitor actively participated in the following steps in the process to ensure that fairness was maintained throughout:

- Attended project kick-off meeting
- Reviewed the Draft RFQ and RFP documents
- Attended Commercially Confidential Meetings with the pre-qualified Proponents
- Attended Site Visits
- Reviewed the RFQ and RFP Addenda
- Reviewed the evaluation process and guideline
- Observed the proposal receipt
- Observed the evaluation and selection processes

Windsor Essex Mobility Group (WEMG) was selected as the Preferred Proponent, as announced publicly on November 5th, 2010.

As the Fairness Monitor for the **Windsor Essex Parkway Project**, we certify that the principles of fairness, openness, consistency and transparency have, in our opinion, been maintained throughout procurement process. Furthermore, no issues emerged during the process, of which we were aware, that would impair the fairness of this initiative.

Yours truly,

I acknowledge that providing my name below in electronic form constitutes a signature for the purposes of the *Electronic Commerce Act, 2000*, S.O. 2000, c. 17.

RWLowry

Rob Lowry
Lead Fairness Monitor

The Windsor-Essex Parkway
Artist's rendering

Highlights of the project

The Windsor-Essex Parkway is part of a long-term transportation solution that will ensure the safe and efficient movement of people, goods and services across the United States and Canadian border in the Windsor-Detroit gateway.

Size	11 kilometre freeway with six lanes and a four-lane service road
Community features	To be built 5 metres below grade, with earth berms and noise barriers
Environmental features	• 11 tunnels, ranging in size from 120 metres to 240 metres long • More than 300 acres of green space • 20 kilometres of recreational trails • extensive landscaping throughout the corridor • the use of proven techniques to reduce noise levels • special measures to protect wildlife

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Summary

The Windsor-Essex Parkway supports the Province of Ontario's long-term infrastructure plan to repair, rebuild and renew the province's roads and highways, bridges, public transit, schools and post secondary institutions, hospitals and courthouses in communities across Ontario.

Over the last six years, the Province has averaged $10 billion in infrastructure investments per year. In June 2011, the Province launched its new long-term infrastructure plan – *Building Together*. The Province expects to continue significant investments in public infrastructure, and will begin by investing more than $35 billion over the next three years.

Infrastructure Ontario plays a key role in procuring and delivering infrastructure projects, on behalf of the Province. When Infrastructure Ontario was created, its mandate included using an alternative financing and procurement (AFP) method to deliver large, complex infrastructure projects. In June 2011, the Province expanded Infrastructure Ontario's role to deliver projects of various sizes, including ones suitable for an AFP delivery model, as well as other delivery models.

The Windsor-Essex Parkway is being delivered under the Province's alternative financing and procurement (AFP) method.

The Windsor-Essex Parkway will include community and environmental features, such as:

- 1.8 km of tunneled sections
- more than 300 acres of green space
- 20 kilometres of recreational trails
- extensive landscaping throughout the corridor
- the use of proven techniques to reduce noise levels
- special measures to protect wildlife

Upon completion, the 11 kilometre Parkway will ensure the safe and efficient movement of people, goods and services to and from the Windsor-Detroit border, separate local and international traffic, and eliminate stop-and-go traffic in residential areas. With more than 300 acres of green space, 20 kilometres of recreational trails and new community connections, residents in Windsor-Essex will enjoy an improved quality of life.

The purpose of this report is to provide a summary of the project scope, the procurement process and the project agreement, and to demonstrate how value for money was achieved by delivering The Windsor-Essex Parkway through the AFP process.

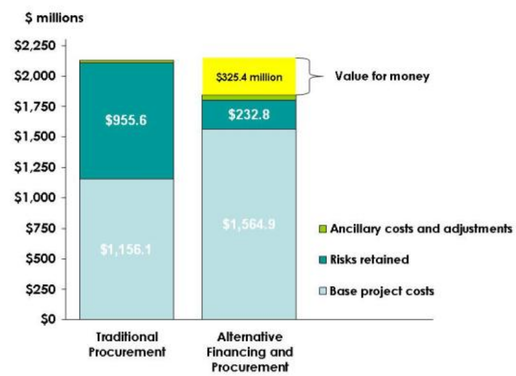
The value for money analysis refers to the process of developing and comparing the total project costs under two different delivery models expressed in dollar values measured at the same point in time.

Value for money is determined by directly comparing the cost estimates for the following two delivery models:

Model #1 Traditional project delivery (Public sector comparator)	**Model #2 Alternative financing and procurement**
Total project costs that would have been incurred by the public sector to deliver an infrastructure project under traditional procurement processes.	Total project costs incurred by the public sector to deliver the same infrastructure project with identical specifications using the AFP approach.

The cost difference between model #1 and model #2 is the estimated value for money for this project.

The value for money assessment of The Windsor-Essex Parkway demonstrates the AFP approach provides estimated cost savings of 15.01 per cent or $325.4 million compared to a traditional delivery.



KPMG LLP completed the value for money assessment of The Windsor-Essex Parkway (Parkway). Their assessment demonstrates projected cost savings of 15.01 per cent by delivering the project using the AFP model in comparison to a traditional delivery model.

P1 Consulting acted as the Fairness Monitor for the procurement process. They reviewed and monitored the communications, evaluations and decision-making processes associated with The Parkway, ensuring the fairness, equity, objectivity, transparency and adequate documentation of the process. P1 Consulting certified that these principles were maintained throughout the procurement process (please see letter on pages 4 and 5).

Infrastructure Ontario will work with the Ontario Ministry of Transportation to deliver The Windsor-Essex Parkway, which will remain publicly owned and publicly controlled.

Project description

Background

Ontario's public infrastructure projects are guided by the five principles set out in the provincial government's *Building a Better Tomorrow Framework,* which include:

1. public interest is paramount;
2. value for money must be demonstrable;
3. appropriate public control and ownership must be preserved;
4. accountability must be maintained; and
5. all processes must be fair, transparent and efficient.

Infrastructure Ontario has the task of delivering the Windsor-Essex Parkway, on time and on budget. The Parkway will be delivered using an Alternative Financing and Procurement (AFP) delivery model - a made-in-Ontario approach to project delivery. AFP brings private-sector expertise, ingenuity and rigour to the process of managing and renewing Ontario's public infrastructure while shifting risks associated with cost and schedule overruns away from the public sector.

The Windsor-Essex Parkway

In 2005, the Detroit River International Crossing (DRIC) study began under the Ontario *Environmental Assessment Act*. Throughout the study, Windsor and Essex County residents attended meetings, talked to the study team, and provided written comments. This consultation, combined with detailed technical studies and analysis, led to the identification of the Windsor-Essex Parkway as the Ontario access road portion of an end-to-end border transportation system in the Windsor-Detroit Gateway.

Upon completion, the 11 kilometre Parkway will ensure the safe and efficient movement of people, goods and services to and from the Windsor-Detroit border, separate local and international traffic, and eliminate stop-and-go traffic in residential areas.

Project Scope

Upon completion of a Windsor-Detroit border transportation system, Ontario's highway 401 will, for the first time, be directly connected to the United States interstate system. The Parkway will travel west from Highway 401 in southwest Ontario, Canada, through the municipalities of Tecumseh and LaSalle and the City of Windsor and connect to a Canadian inspection plaza, international bridge, Michigan inspection plaza and Interstate 75 in Michigan, USA.

The six-lane, 11 kilometre freeway will have 11 covered tunnels, be built below grade, and have earth berms and noise barriers in place to minimize community impact. The tunnels range from 120 metres to 240 metres long, totalling 1.8 kilometres. Local and international traffic will be separated, taking trucks off local streets. The four-lane service roads will meet community needs to access schools, shops, neighbourhoods and natural areas.

The Parkway will develop more than 300 acres of green space and 20 kilometres of recreational trails. It also will have extensive landscaping throughout the corridor.

The Parkway will include other community and environmental features, such as:

- the use of proven techniques to reduce noise levels
- special measures to protect wildlife

Competitive selection process timeline

Infrastructure Ontario has entered into a project agreement with the Windsor Essex Mobility Group (WEMG) to provide the Windsor-Essex Parkway. The procurement stages for the project were as follows:

June 29 2009
Request for Qualifications
In June 2009, MTO and Infrastructure Ontario issued a request for qualifications (RFQ) for the project. Three teams were short-listed:

- Rose City Parkway Group
- Windsor-Essex Transportation Partners
- Windsor Essex Mobility Group

December 28, 2009
Request for Proposals
A request for proposals (RFP) was issued to the short-listed bidders; this set out the bid process and proposed project agreements to deliver the project.

Proposal submission
The RFP period closed on August 6, 2010. Three bids were received by Infrastructure Ontario and MTO. The bids were evaluated using the criteria set out in the RFP.

November 5, 2010
First ranked bidder notification
The Windsor Essex Mobility Group was selected as the first ranked proponent based on predetermined criteria, in accordance with the evaluation criteria set out in the RFP.

December 17, 2010
Commercial close/Financial Close
A project agreement was executed by the Windsor Essex Mobility Group (WEMG) and Infrastructure Ontario.

The Windsor Essex Mobility Group is a partnership between ACS Infrastructure Canada Inc., Acciona Concessions Canada, and Fluor Canada Limited.
Equity is being provided equally by the three main team members.

Financing for the Parkway was arranged by RBC Financial.

Short and long-term financing are provided by: Bank of Tokyo-Mitsubishi UFJ, BNP Paribas, Caja Madrid, Banesto, Crédit Agricole CIB, Dexia Crédit Local, ING Capital, Santander, Société Générale , WestLB AG

Winter 2011 – Summer 2014
Design and Build Phase
The design and build phase will be carried out in accordance with the project agreement.

Following commercial / financial close, the WEMG will finalize the Parkway design and ensure the necessary permits and approvals are in place to commence full construction in summer 2011.

The project will be overseen by an Operational Committee and Management Committee made up of representatives from Ontario Ministry of Transportation, Infrastructure Ontario and the WEMG.

The Parkway is scheduled to be open completely to traffic in fall 2014.

Completion and payment
WEMG has committed to complete the project in three years and nine months. The WEMG will receive its first payment from Ontario in summer 2014 once substantial completion is achieved and operation and maintenance begins on the first phase of the Parkway. Two other substantial completion payments will be made following substantially completion and the start of maintenance and operation on phases two and three of the Parkway. The province will make monthly operation, maintenance and rehabilitation payments to the WEMG over the duration of the contract (a 30-year period). Payments will cover the costs for construction of the Parkway, maintenance, life-cycle repair and renewal, rehabilitation and project financing.

Project agreement

Legal and commercial structure

Infrastructure Ontario entered into a project agreement with WEMG, comprising approximately 45 months (three years and nine months) of construction and a 30-year maintenance timeframe. Under the terms of the project agreement, WEMG will:

- design and build the Parkway;
- finance the design, construction and capital costs of the Parkway over the term of the project;
- obtain a third-party independent certification that the Parkway is built in accordance with the project agreement;
- provide maintenance and life-cycle maintenance of the Parkway for the 30-year service period under pre-established maintenance performance standards set out in the project agreement; and
- ensure that, at the end of the contract term, the Parkway meets the conditions specified in the project agreement.

WEMG has committed to complete the project in three years and nine months. WEMG will receive its first payment from Ontario in summer 2014 once substantial completion is achieved and operation and maintenance begins on the first phase of the Parkway. WEMG will receive a second substantial completion payment when phase two of the project achieves financial close and begins operation and maintenance, also in summer 2014 and a third substantial completion payment will be made when the Parkway is completely open to traffic in fall 2014.

The province will begin to make monthly operation, maintenance and rehabilitation payments at this stage to WEMG over the duration of the contract (a 30-year period). These payments will be based on performance requirements defined in the project agreement. Payments will cover the costs for construction of the Parkway, operations, maintenance, rehabilitation and project financing.

The Windsor-Essex Parkway will be publicly owned and publicly controlled. It will not be a toll road.

Maintenance and Operation:

The Windsor Essex Mobility Group will ensure that all maintenance work on the Parkway:

- is in accordance with the Output Specifications
- meets agreed to schedule
- meets good industry practice
- allows the road to remain operational at all times
- is consistent with maintenance standards of Ministry Area Maintenance Contracts (AMC)

The Windsor Essex Mobility Group will be penalized for road conditions that fall below minimum standards.

Throughout the maintenance and operation phase, the Windsor Essex Mobility Group is required to submit regular Asset Condition Reports to the Province.

Hand back requirements:

- On expiry of the Project Agreement, the Windsor Essex Mobility Group must ensure the Parkway is in the condition specified by the Project Agreement.
- Prior to the expiration of the Project Agreement, an independent inspector will assess the Parkway's condition to determine if the required standards will be met.
- If an inspection reveals that required standards have not been met, the cost to rectify conditions will be charged to the Windsor Essex Mobility Group.

Design, build and completion risk

All construction projects have risks. Some project risks are retained in varying magnitude by the public sector. Examples of risks retained by the public sector under either the AFP or traditional model include changes in law, public sector initiated scope change, and force majeure (shared risk).

Under the AFP model, some key risks that would have been retained by the public sector in the traditional design build model are contractually transferred to the WEMG. On a traditional project, these risks and resource availabilities can lead to cost overruns and delays. Examples of risks transferred to the private sector under the AFP project agreement include:

Construction price certainty

WEMG's payment may only be adjusted in very specific circumstances, agreed to in advance and in accordance with the detailed variation (or change order) procedures set out in the project agreement.

Scheduling, project completion and delays

WEMG has committed to complete the project in three years and nine months.

The construction schedule can only be modified in very limited circumstances, in accordance with the project agreement. WEMG will not receive any payment from the Province until substantial completion of the first phase of the Parkway is complete in summer 2014 and it has been certified as substantially complete by an independent certifier.

Costs associated with delays that are the responsibility of WEMG must be paid by WEMG.

Site conditions and contamination

The WEMG accepted the site and site conditions and will not be entitled to make claims against the Province for any contamination. The WEMG is responsible for remediation of any contamination at the site that was disclosed in or could have been reasonably anticipated from the environmental reports or any of the geotechnical reports, or that is caused by WEMG or any of its parties.

Development approvals

WEMG is responsible for applying, obtaining, maintaining, renewing and complying with all development approvals and permits.

Construction financing

WEMG is required to finance the design and the construction of the Parkway until all phases are complete and fully operational. WEMG will be responsible for all increased financing costs should there be any delay in WEMG reaching substantial completion of the Parkway. This shifts significant financial risk to WEMG in the case of late delivery.

Commissioning and road readiness

WEMG must achieve a prescribed level of commissioning of the Parkway at each phase of substantial completion and must co-ordinate the commissioning activity within the agreed-upon construction schedule. This ensures that the Province will receive a functional Parkway at the time payments to WEMG commence. WEMG will work closely with the Province to facilitate the transition phase of the Parkway.

Activity protocols

WEMG and the Province have established a schedule for project submittals taking into account the time for review needed by Infrastructure Ontario's compliance advisor.

This protocol mitigates against WEMG alleging delay as a result of an inability to receive responses in a timely manner in the course of the work.

Change order protocol

In addition to the variation procedure set out in the project documents, Infrastructure Ontario's protocols set out the principles for any changes to the project work/scope during the construction period, including:

- requiring approval and processing of change orders from the Province
- specifying the limited criteria under which change orders will be processed and applied

- timely notification of change orders to Infrastructure Ontario
- approval by Infrastructure Ontario for owner-initiated scope changes
- Approval by Infrastructure Ontario for any change orders which exceed pre-determined thresholds
- Approval by Infrastructure Ontario when the cumulative impact of the change orders exceed a pre-determined threshold.

Operations and maintenance risk

As part of the project agreement, key risks associated with the maintenance responsibility of the Parkway over the 30-year service period have been transferred to WEMG. WEMG's maintenance of the Parkway's life-cycle repair and renewal must meet the performance requirements set out in the project agreement. Under the project agreement, WEMG faces deductions to its monthly payments if it does not meet its performance obligations.

In addition to the transfer key risks (outlined on pages 12 to 13) to WEMG under the project documents, the financing arrangement entered into between WEMG and its lenders ensures that the project is subject to additional oversight, which may include:

- an independent budget review by a third-party cost consultant
- monthly reporting and project monitoring by a third-party cost consultant
- the requirement that prior approval be secured for any changes made to the project budget in excess of a pre-determined threshold.

Achieving value for money

For the Windsor-Essex Parkway project, KPMG LLP's value for money assessment demonstrates the AFP approach provides a projected cost savings of 15.01 per cent, or $325.4 million compared to the traditional procurement approach.

KPMG LLP was engaged by Infrastructure Ontario to independently assess whether – and, if so, the extent to which – value for money will be achieved by delivering this project using the AFP method. Their assessment was based on the value for money assessment methodology outlined in *Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology*, which can be found at www.infrastructureontario.ca. The approach was developed in accordance with best practices used internationally and in other Canadian provinces, and was designed to ensure a conservative, accurate and transparent assessment. Please refer to the letter from KPMG LLP on pages 2 and 3.

Value for money concept

The goal of the AFP approach is to deliver a project on time and on budget and to provide real cost savings for the public sector.

The value for money analysis compares the total estimated costs, expressed in today's dollars and measured at the same point in time, of delivering the same infrastructure project under two delivery models - the traditional delivery model (public sector comparator or "PSC") and the AFP model.

Model #1 Traditional project delivery (Public sector comparator)	Model #2 Alternative financing and procurement
Total project costs that would have been incurred by the public sector to deliver an infrastructure project under traditional procurement processes.	Total project costs incurred by the public sector to deliver the same infrastructure project with identical specifications using the AFP approach.

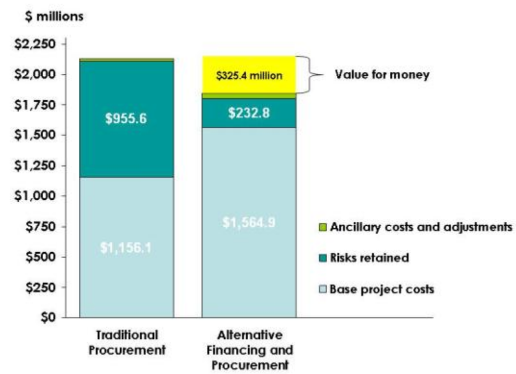
The cost difference between model #1 and model #2 is referred to as the value for money. If the total cost to deliver a project under the AFP approach (model #2) is less than the total cost to deliver a project under the traditional delivery approach (model #1), there is said to be positive value for money. The value for money assessment is completed to determine which project delivery method provides the greatest level of cost savings to the public sector.

The cost components in the VFM analysis include only the portions of the project costs that are being delivered using AFP.

The value for money assessment is developed by obtaining detailed project information and input from multiple stakeholders, including internal and external experts in project management and transportation project management.

Components of the total project costs under each delivery model are illustrated below:

The value for money assessment of the Windsor-Essex Parkway demonstrates the AFP approach provides estimated cost savings of 15.01 per cent or $325.4 million in comparison to traditional delivery.



It is important to keep in mind that Infrastructure Ontario's value for money calculation methodology does not attempt to quantify a broad range of qualitative benefits that may result from using the AFP delivery approach. For example, using the AFP approach will result most likely in a project being delivered on time and on budget. The benefits of having a project delivered on time cannot always be accurately quantified.

These qualitative benefits, while not expressly quantified in this value for money analysis, are additional benefits of the AFP approach that should be acknowledged.

Value for money analysis

For a fair and accurate comparison, the traditional delivery costs and AFP costs are present-valued to the date of financial close to compare the two methods of delivering a design, build, finance and maintain project at the same point in time. It is Infrastructure Ontario's policy to use the current public sector rate of borrowing for this purpose to ensure a conservative and transparent analysis. For more information on how project costs are time-valued and the value for money methodology, please refer to *Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology*, which is available online at www.infrastructureontario.ca.

Base costs

Base project costs are taken from the price of the contract signed with WEMG, and include all construction, maintenance, rehabilitation and financing costs. The base costs between AFP and the traditional delivery model mainly differ as follows:

> Under the AFP model, the private party charges an additional premium as compensation for the risks that the public sector transfers to them under the AFP project documents and as compensation for the cost of financing the project using its own capital. In the case of traditional delivery, the private party risk premium is not included in the base costs as the public sector retains these risks and does not require private sector financing.

In the case of the AFP model, the base costs are extracted from the price agreed among the parties under the project agreement. For the Windsor-Essex Parkway, these were $1.6 billion.

If the traditional model had been used for the Windsor-Essex Parkway, base costs are estimated to be $1.2 billion.

Risks retained

Historically, on traditional projects, the public sector had to bear costs that go beyond a project's base costs as contingencies were put in place to respond to risks (or unexpected events).

Project risks are defined as potential adverse events that may have a direct impact on project costs. To the extent that the public sector retains these risks, they are included in the estimated project cost.
The concept of risk transfer and mitigation is key to understanding the overall value for money assessment. To estimate and compare the total cost of delivering a project under the traditional delivery versus the AFP method, the risks borne by the public sector (which are called "retained risks") should be identified and accurately quantified.

Comprehensive risk assessment not only allows for a fulsome value for money analysis, but also helps Infrastructure Ontario and the public sector sponsors to determine the party best able to manage, mitigate and/or eliminate the project risks and to appropriately allocate those risks under the project documents.

Under the traditional delivery method, the risks retained by the public sector are significant. As discussed on pages 12-13, the following are examples of risks retained by the public sector under the traditional delivery method that have been transferred under the project agreement to WEMG:

- design compliance with the output specifications;
- design and build price certainty;

- scheduling, project completion and potential delays;
- design and build co-ordination;
- design and maintenance responsibility;
- infrastructure responsibility;
- build and operations period financing;
- schedule contingency;
- coordination of equipment procurement installation;
- deployment of solution.

Examples of these risks include:

- *Design and build coordination/completion:* Under the AFP approach, the vendor is responsible for design and build activities to ensure that the solution is built in full accordance with the output based specifications in the project agreement. The vendor is responsible for inconsistencies, conflicts, interferences or gaps in the design and build submittals.

- *Scheduling, project completion and delays:* Under the AFP approach, the WEMG has agreed that it will complete the Parkway for a fixed date and at a pre-determined price. Therefore, any extra cost (financing or otherwise) incurred as a result of a schedule overrun caused by the WEMG will not be paid by the Province; this agreement motivates the WEMG to maintain the project's schedule. Further oversight includes increased upfront due diligence and project management controls imposed by the WEMG and its lenders.

Infrastructure Ontario retained KPMG LLP to develop a template for assessing the project risks that the public sector relinquishes under AFP compared to the traditional approach. Using data from actual projects as well as its own knowledge base, the firm established a risk profile under both approaches for transportation projects.

It is this risk matrix that has been used for validating the risk allocation for the specific conditions of the Windsor-Essex Parkway.

Using the AFP model reduces these results to the public sector. For example, had this project been delivered using the traditional approach, design risks that arise would be carried out through a series of change orders issued during construction of the Parkway. Using the AFP approach, such change orders would be minimal and result in cost avoidance to the public sector.

The risk transfer provisions in the project documents result in overall cost savings as these transferred risks will either be better managed or completely mitigated by WEMG.

A detailed risk analysis of the Windsor-Essex Parkway concluded that the average value of project risks retained by the public sector under traditional delivery is $955.6 million. The analysis also concluded that the average value of project risks retained by the public sector under the AFP delivery model decreases to $232.8 million. This is a savings of $722.8 million for Ontario taxpayers.

Ancillary costs and adjustments

There are significant ancillary costs associated with the planning and delivery of a large complex project that vary depending on the project delivery method.

For example, there are costs related to each of the following:

- *Project management:* These are essentially fees to manage the entire project. Under the AFP approach, these fees will also include Infrastructure Ontario costs.
- *Transaction costs:* These are costs associated with delivering a project and consist of legal, fairness and transaction advisory fees. Technical advisory and cost consultant fees are also incurred to ensure the Parkway is being designed and built according to the output specifications.

The ancillary costs are quantified and added to both models for the value for money comparison assessment. Both project management and transaction costs are likely to be higher under AFP given the greater degree of up-front due diligence. The ancillary costs for the Parkway under the traditional delivery method are estimated to be $16.7 million as compared to $45.7 million under the AFP approach.

An adjustment is made when estimating costs under traditional delivery. This adjustment is referred to as competitive neutrality and accounts for items such as taxes paid under AFP that flow back to the public sector and are not taken into account under the traditional model. In the case of the Parkway, this adjustment is made by adding $40.4 million to the traditional delivery costs (i.e. on the PSC side).

For a detailed explanation of ancillary costs, please refer to *Assessing Value for Money: A Guide to Infrastructure Ontario's Methodology*, which is available online at www.infrastructureontario.ca

Calculating value for money

The analysis completed by KPMG LLP concludes that the additional costs associated with the AFP model are more than offset by the benefits which include: a much more rigorous upfront due diligence process, reduced risk to the public sector, controls imposed by the private sector to mitigate the risk that has been transferred to them, and Infrastructure Ontario's standardized AFP procurement process.

Once all the cost components and adjustments are determined, the aggregate costs associated with each delivery model (i.e., traditional delivery and AFP) are calculated, and expressed in Canadian dollars, as at financial close. In the case of the Parkway, the estimated traditional delivery cost (i.e. PSC) is $2.17 billion as compared to $1.84 billion under the AFP delivery approach.

The positive difference of $325.4 million or 15.01 per cent represents the estimated value for money by using the AFP delivery approach in comparison to the traditional delivery model.