



TUNNEL AND STATIONS PUBLIC PRIVATE PARTNERSHIP PROJECT SUMMARY ADDENDUM

MARCH 2021

A Project Summary for the Tunnel and Stations Public Private Partnership (PPP) was published in February 2018, shortly after the State entered into contracts for the Tunnel and Stations PPP work package of the Metro Tunnel Project.

This Project Summary Addendum provides information about the material changes made to the contractual and commercial aspects of the Tunnel and Stations PPP since the Project Summary was published, noting that none of these changes constitute a Modification or Extension of Time under the Project Agreement. This Project Summary Addendum should be read in conjunction with the Project Summary.

Unless otherwise defined, capitalised terms used in this Project Summary Addendum have the meaning given in the Project Summary.

The Project Summary and this Project Summary Addendum should not be relied upon to completely describe the rights and obligations of the parties in respect of the Tunnel and Stations PPP, which are governed by the Project Agreement and associated documents. The Project Agreement and associated documents are available online at tenders.vic.gov.au.





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1 INTRODUCTION

The Metro Tunnel will transform Melbourne's train network, deliver more trains to and from the suburbs and take cars off busy roads. The project will create capacity for more than a half a million additional passengers per week to travel during peak times across Melbourne's train network.

On 28 June 2019 the State, Project Co and the D&C Subcontractor entered into a Process Deed to provide a framework for collaboration and discussions to resolve certain project issues that had arisen since Contract Close.

Following an extensive process of due diligence and discussions between the parties, the State, Project Co, the D&C Subcontractor and the Maintenance Subcontractor entered into a non-binding Commercial Principles Deed on 30 June 2020. The Commercial Principles Deed documented the parties' in-principle agreement to make certain changes to the Project Documents and to settle certain matters.

Binding contractual agreements (Amending and Settlement Deeds) were entered into on 24 December 2020 to formally document the agreed amendments to the Project Agreement and other Project Documents, as well as the terms of the releases and settlements between the parties.

The key aspects of the Amending and Settlement Deeds involve:

- A revised delivery program and amended completion arrangements for the Tunnel and Stations PPP
- Amendments to the original payment arrangements and additional payments by the State to Project Co; and
- The release and settlement of claims between the parties.

The State has determined that the Amending and Settlement Deeds provide value and benefit to the State, including as a result of the revised delivery program and completion arrangements and the release and settlement of claims.

It reflects the changes to the delivery program which assist in 'de-risking' the commissioning phase of the project and the retention of the value in what has been invested by Project Co in delivering these complex and architecturally impressive stations under Melbourne.

This assessment was made by comparing the costs and benefits of the Amending and Settlement Deeds to the expected project outcomes under a counterfactual scenario in which the project proceeded (and the parties pursued their legal rights) under the original Project Documents.

These arrangements are summarised in the following pages.

2 DELIVERY PROGRAM AND COMPLETION REGIME

2.1 REVISED DELIVERY PROGRAM

As with any infrastructure project of this scale and complexity, an enormous amount of testing and integration needs to occur once the majority of the civil works are complete. These activities will ensure that the various complex systems are compatible with each other and that the new tunnels and stations can be operated safely and reliably.

Project Co has agreed to adopt a revised delivery program for the Tunnel and Stations PPP. This revised program involves a resequencing of activities to provide more time for testing of High Capacity Metro Trains (HCMTs) (delivered by a separate project, the HCMT PPP) and rail systems (delivered by a separate work package of the Metro Tunnel Project, the Rail Systems Alliance (RSA)) within the tunnel and stations.

The parties have also developed an integrated program to coordinate and manage the required integrated testing and commissioning activities across the Metro Tunnel Project work packages and the HCMT PPP, as well as new governance arrangements to manage this integrated program.

These revised arrangements are intended to de-risk the testing and commissioning processes for the Metro Tunnel Project as a whole, with the objective of enabling earlier commencement of passenger services than would otherwise have been the case.

2.2 REVISED CONTRACT MILESTONES

To align with the revised delivery program, the amended Project Agreement contains a number of key milestones, as summarised in Table 1.

Table 1: Contract milestone summary

Contract milestone	Date
Date for Provisional Acceptance of the Tunnel and Stations PPP	30 April 2024
Date for Final Acceptance of the Tunnel and Stations PPP	17 March 2025
Maintenance Phase	From commencement of train operations to 17 September 2048
Contract expiry date	17 September 2048

The completion requirements for key milestones include regimes for 'remaining works' (namely, works which are permitted to remain outstanding upon achievement of the relevant contract milestone but do not interfere with trial operations or passenger services as relevant). The amended Project Agreement contains a list of pre-agreed Provisional Acceptance Remaining Works for specified activities at Federation Square and Anzac Station.

The committed date for completion of the Metro Tunnel remains 2025 but the amended Project Agreement provides for the opportunity for train services to commence in 2024.

3 STATE PAYMENT ARRANGEMENTS

3.1 QUARTERLY SERVICE PAYMENTS

3.1.1 FINAL INTEGRATION COMMENCEMENT PAYMENT

The State will pay the Final Integration Commencement Payment to Project Co from the Date for Final Integration Commencement until the Date for Provisional Acceptance.

The Final Integration Commencement Payment comprises a debt service component to cover debt repayments (but not equity returns), the Project Co component to cover Project Co's operating costs and a fixed fee to cover the cost of the Final Acceptance Works.

3.1.2 FINAL ACCEPTANCE WORKS PAYMENT

The State will pay the Final Acceptance Works Payment to Project Co from the Date of Provisional Acceptance until the Date of Day 1 Train Operations.

The Final Acceptance Works Payment comprises the capital component to cover debt and equity repayments, the Project Co component and the lifecycle component to cover lifecycle costs.

The State will also pay Project Co a fixed amount following the achievement of Final Acceptance, sized to cover the equity repayments forgone during the period from the Date for Final Integration Commencement until the Date for Provisional Acceptance (noting that the Final Integration Commencement Payment includes only a debt service component rather than the full capital component of the Quarterly Service Payments (QSP)).

3.1.3 MAINTENANCE PHASE PAYMENT

The State will pay the Maintenance Phase Payment to Project Co from the Date of Day 1 Train Operations until the contract expiry date (noting there has been no extension to the concession).

The Maintenance Phase Payment comprises the capital component, the Project Co component, the lifecycle component and a maintenance component to cover the costs of maintenance and other services.

3.1.4 CHANGES TO QSP PAYMENT AMOUNTS

The State and Project Co have agreed some minor changes to the maintenance and lifecycle components of the QSP.

There have been no changes to the value of the capital component of the QSP, the Project Co component of the QSP or the fixed fee for Final Acceptance Works.

3.2 FINAL ACCEPTANCE PAYMENT

As agreed at Financial Close, the State will pay Project Co an incentive payment of \$12.5 million upon Final Acceptance.

This payment will now increase or be reduced by \$80,000 per day, rather than \$40,000 per day as agreed at Financial Close. The minimum payment is \$5 million and the maximum is \$20 million, consistent with the minimum and maximum values agreed at Financial Close.

3.3 STATE CONTRIBUTIONS

Consistent with the arrangements at Financial Close, the State will pay State Construction Contributions totalling \$2.5 billion during the D&C Phase. The parties have agreed a slightly revised payment profile for the State Construction Contributions, with payments being made later than under the profile agreed at Financial Close.

The State Capital Contribution of \$1.5 billion will now be paid following the Date of Final Integration Commencement, rather than following the Date of Provisional Acceptance.

The State has also confirmed it will exercise its option to pay the State Maintenance Phase Contribution. The State Maintenance Phase Contribution will be paid in September 2027, subject to Project Co having achieved Final Acceptance and satisfied certain other conditions.

3.4 ADDITIONAL PAYMENTS

The State has agreed to make the following additional payments to Project Co:

- Payments totalling \$1.061 billion will be made over a period of 18 months from December 2020, subject to the actual progress of the works; and
- Payments totalling up to \$290 million will be made for the timely achievement of the Performance Event Milestones and Day 1 Train Operations, the achievement of new KPIs (relating to better collaboration, systems integration and assurance, compliance, quality of the works and more) which apply during the D&C Phase and the provision of all contractual documentation required by Final Acceptance.

4 RELEASE AND SETTLEMENT OF CLAIMS

With the exception of a limited number of expressly excluded matters, the parties have released and settled all available claims that existed prior to the date of execution of the Amending and Settlement Deeds.

