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Dear

RESIDUAL WASTE TREATMENT PFI OPPORTUNITY IN LEEDS - MARKET SOUNDING

Introduction

Leeds City Council ('the Council') is drafting an Outline Business Case for PFI Credits from DEFRA with EfW as a reference project, and has asked PricewaterhouseCoopers ('PwC') as its financial advisor to perform a targeted market sounding exercise to obtain the views of potential experienced bidders.

The market sounding does not form part of any formal procurement process. Any information provided by the Council in the course of market sounding will be made available to bidders under any subsequent tendering process.

Set out in this letter is a description of the proposed procurement, followed by a number of questions to which your responses would be appreciated. Information supplied to PwC in response to this market sounding will be shared with the Council but treated in confidence by both PwC and the Council. Further market sounding may be undertaken in the form of interviews with interested suppliers as a follow up to responses.

Current Arrangements

As a Unitary authority, Leeds City Council is responsible for both the collection and disposal of approximately 380,000 tonnes of municipal solid waste (MSW), of which 270,000 is through kerbside collection and 80,000 is from Household Waste Sorting Sites (HWSS). MSW is expected to grow to 500,000 in the next 30 years mainly as a result of housing growth.

The Council provides all collection services in-house, including HWRC management. 22% of household waste was recycled and composted in 2006/07, with all recyclables and green waste being taken to third party reprocessors. The

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residual waste is taken directly to landfill owned by private contractors with current contracts due to expire in 2008 (these may be subject to two year extensions).

Future Strategy

Leeds has set up a Waste Solution Programme to take forward a range of projects for improving recycling and recovery. The Council is now committed to increasing recycling and composting to above 50% within 10 years. This will be delivered through education/minimisation, changes to collection arrangements and new reprocessing operations.

The largest single investment will be in a residual technology in order to meet the target of 90% recovery of waste by 2020. In October 2006, following public consultation, the Council approved the Leeds Waste Strategy with EfW as the preferred technology for residual waste. An Expression of Interest was submitted to DEFRA in January 2007 for PFI Credits. Leeds has since been asked by DEFRA to prepare an OBC for submission in September 2007 with a target of approval by HM Treasury's Project Review Group by early 2008.

The wider vision included in the Leeds Waste Strategy is for a Sustainable Energy and Resource Park (SERP) to include other waste processes and education opportunities. However, the Council recognises that to be deliverable, in line with DEFRA criteria, the PFI contract should be ring-fenced to the residual waste treatment facility, which would have a discreet part of any site containing wider activities.

Details of PFI Procurement

The Council's programme envisages an OJEU in Spring 2008 following OBC approval. Although the Council has identified EfW as the technology most likely to meet its needs at this stage, the contract will be output-based and it is not the Council's intention to restrict technology choice if an alternative can meet the required targets in a robust and affordable manner.

The Council has undertaken extensive waste flow analysis with its technical advisers Jacobs UK Ltd and has determined the optimal capacity as around 180,000 tonnes per annum. This does allow for waste growth with the spare capacity to be taken up with third party waste when not required by Leeds.

The Council would be seeking a contractor able to design, build, finance and operate the residual waste treatment facility for a 28 year concession period with at least 24 years' full operations, reverting to the Council at the end of the concession. The PFI Contractor would be responsible for receiving and processing all of Leeds City Council's residual household waste, and transfer and disposal of any residues.

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An indicative timetable for the proposed procurement process is set out below:

Publish contract notice in OJEU	May 2008
Invitation to Submit Outline Proposals	August 2008
Invitation to Submit Detailed Submissions	November 2008
Final Tender	August 2009
Select preferred bidder	November 2009
Award contract	March 2010
Planning Approval	December 2010
Plant fully operational	by April 2014

Due to the geographic size of the City, the Council is currently projecting the need for a single Waste Transfer Station (WTS) for up to 100,000 tpa (residual waste only) for one side of the City. The Council is currently considering whether it may offer better value for money to include this in the PFI Contract as it sees the WTS as effectively a gateway to the residual waste treatment facility. It believes that the PFI operator is in a better position to manage the flow and haulage of waste to the facility from the WTS and to provide certainty of availability for waste reception from collection vehicles.

The Council has been mindful of the question of joint procurement on a regional basis with other Councils. However, it believes that factors such as the size of the facility, the benefit of proximity, the avoidance of complexity and the different timing of neighbouring procurements all suggest a Leeds-only solution.

Leeds has an extremely strong record of successful and timely PFI procurement, with contracts now in place to deliver £800m investment, including a recently signed Building Schools for the Future partnership. Part of the Council's success is down to having a central PPP Unit and clear decision making processes. The same structure would be employed in the Waste PFI.

Sites and Planning

The Council is very mindful of the importance of securing an appropriate site and putting in place the right planning framework for an eventual planning application. Having been through a thorough site selection process, the Council is holding in reserve a deliverable site for the residual waste treatment facility and one for the WTS which are in its ownership. It is also exploring sites not in its ownership and, if this is a better option, it would purchase such a site prior to the ISDS stage of procurement. Either way, the Council will provide a site to the short-listed bidders to be included in a standard bid for both the treatment facility and the WTS.

The current planning policies for waste are included in the UDP Review adopted in 2006. In parallel with the procurement, the Council is developing a Core Strategy and Waste DPD within its Local Development Scheme (LDS). Although these

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documents may not be adopted until 2010/11, the relevant site will have already been included in an Area Action Plan which will have been subject to consultation and will also form part of the LDS.

Risk Transfer

In general the Council believes that the limited scope of the service lends itself well to risk transfer. The Council would take full advantage of the central standardisation of contractual terms (both for PFI generally and specific guidance in Waste) as well as market practice. In relation to planning, the Council would be happy to adopt the latest framework developed by Defra's WIDP. The Council considers that TUPE transfer implications, if any, would be minimal.

Subject to minimum and maximum tonnages, the Council would expect the PFI Contractor to take all demand risk. The key risks it would expect to transfer are diversion performance; the Council would expect the contractor to bear the landfill cost and LATS impact of failing to divert residual waste. Another fundamental benefit being sought through PFI is service availability as early as possible, with appropriate incentives to bring the plant on line early, and penalties if it is late.

The Council would expect the contractor to take a reasonable degree of risk on composition of residual waste to take account of variations to householder take up of Council collection services including recyclables, green waste and food waste collections. The Council would also be evaluating bidders on their guaranteed income and excess cash sharing proposals.

Questions: In order to assist the Council in developing its proposed waste management arrangements, we would appreciate responses from interested parties on the following key areas as well as other comments you may have:

1. Does your company intend to participate in the proposed PFI contract with Leeds City Council?
2. How would you prioritise this project against other procurements you might be considering?
3. What role and services would your company expect to provide?
4. Would you anticipate providing services in your own right, as part of a consortium or as a sub-contractor to a lead company? Please explain your favoured consortium structure and why you favour this structure?
5. Can you provide a brief description of your preferred technology (including basic performance information, technology provider, etc.)?
6. Do you see there being risks in terms of the procurement process and costs in Leeds City Council inviting variant bids?
7. What benefits do you see of expanding the capacity of the treatment facility for more third party waste? What would be the optimum size?
8. How would you propose to address any profit share from the sale of third party capacity?

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9. If planning was approved in December 2010, what would be your assumed time for build and commissioning?
10. What residual waste recycling opportunities does your technology provide or could be included within the plant/site?
11. What would be the key factors for you in determining the viability of a Combined Heat and Power scheme, and what would you see as the main benefits?
12. Do you consider that including the Waste Transfer Station is the optimal strategy for the Council? If not, why not? What would be the impact on price and risk in your view?
13. How would you envisage financing the required assets?
14. What do you see as the key issues in terms of risks of delivering the project?
15. What level of risk do you think should be borne by the PFI Contractor and what are your preferred commercial mechanisms for transferring these risks?

Responses Required

Respondents are encouraged to submit their responses either electronically or by letter as soon as possible and in any case to be received no later than 1 August 2007 using the contact details on the header of this letter.

Regards



Jonathan Frank
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