

Pre-Development Agreements: A More Expedient, Innovative Approach to P3 Projects

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Introduction

- *The continuing trend to PPP or P3 project delivery around the world has resulted in a significant increase in public infrastructure being developed and delivered by the private sector in a cost-effective way.*
- *P3 projects are widespread throughout many countries and are now more common in North America and particularly in Canada. For example, the Province of British Columbia has invested more than \$9 billion in some 25 P3 projects since 2002, \$5 billion of which represented private capital.*

Why Public-Private Partnerships?

- Key benefits to the public are:
- Better Value
 - Lower cost
 - Higher levels of services
 - Reduced risk
- On-time delivery
- On-budget delivery
- Minimizing total project cost
- Innovation
- Access to capital



Jemseg River Bridge construction, Fredericton-Moncton Highway, NB, Canada

Some Issues with Current P3 Approach

- Project definition, scoping, timing
- Early sourcing of private financing
- Pursuit costs
- Subsequent approvals and permitting process
- Risk understanding and assignment

P3 Success Factors

The challenge to those jurisdictions where P3 Projects are relatively new is in developing the structure of the P3 to best fit the individual project and then to maximize the eventual success of the project. To achieve this, the following success factors are needed:

- Clearly defined project scope;
- Clearly defined needs and objectives;
- Clearly defined process for project development and approval;
- Flexibility for the private sector in innovation and delivery;
- Allocation of risk to those parties best able to manage and mitigate risk elements;
- Clearly defined performance measurements and incentives;
- Private sector competition

How Does PDA Approach Address These Current Process Issues?

- Gain better understanding of opportunities and risks prior to proceeding to second (Concession) phase
- Early project start, reducing pursuit time and costs
- Opportunity for both partners to work together to advance certain project elements, including the following:
 - Carry out feasibility studies
 - Develop preliminary engineering
 - Assist in advancing environmental studies
 - Investigate construction methodologies
 - Advance permitting process
 - Develop financial plan
 - Develop Open Book costing model(s)

What is a Pre-Development Agreement?

- First stage of P3 project where:
 - Project not yet completely defined
 - Financial feasibility not yet determined, but preliminarily has good potential
 - Public owner seeks private sector innovation in defining and accelerating an optimally feasible project
- Public owner selects Developer on basis of “best development plan”
- Public sector owner retains termination rights, with appropriate compensation for work completed

Overall PDA Benefits

- Pursuit schedule cut by up to half (six mos. vs. 1 yr.)
- More efficient use of private sector resources
- Significantly reduced pursuit costs for both parties
- True partnership – working together on optimum development plan
- Earlier and greater knowledge transfer
- Sharing the workload
- More effective use of financial resources
- Practical view of environmental, rate and other risks
- Transparency, open book approach at early project stage
- Accelerates financial close
- Retains competitive tension post-selection: owner retains option to terminate partnership at close of PDA
- Reduces risk pricing

Public Policy Benefits

- Owner involvement
- Retains public cost comparator approach to evaluate developer's open book Concession price
- Enhanced communications
- Right program = right product
- Better control of costs and timing
- Sustainability
- Flexibility and competitive tension preserved – can still go to street

PDA Process

- Requires legislative framework
- Competitive selection process
- Owner and Stakeholder consultation

Liquidity and Capital Markets

- Not constrained by having to secure financing commitments
- Open book approach to pricing Concession agreement

Operating Costs, Lifecycle Costing

- No change to O&M costs

The Public Sector Comparator

The Public Sector Comparator (PSC) is an analytic tool to determine the Value for Money (VFM) benefit resulting from the delivery of a project using the P3 model. In simple terms, the PSC is the forecast cost of the risk adjusted for the traditional method of project delivery.

PSC is comprised of:

- RAW PSC – base cost of traditional procurement/operation
- Competitive Neutrality – account for difference between public/private sector, i.e. taxes
- Transferable Risk – value of risks transferred, and
- Retained Risk – value of risks that remain.

The PSC is generally used to determine whether proceeding on a P3 delivery basis will achieve Value for Money (VFM). The PSC will include the life-cycle cost of operations maintenance and rehabilitation over the term of the concession.

Public Sector Comparator cont'd.

Generally, each agency has developed its own approach to determining the Net Present Value (NPV) of the PSC for the project under consideration. In the case of the major P3 project awards in Canada, agencies prepare and release to the public a Value for Money Report at the time of announcing the award of a P3 project.

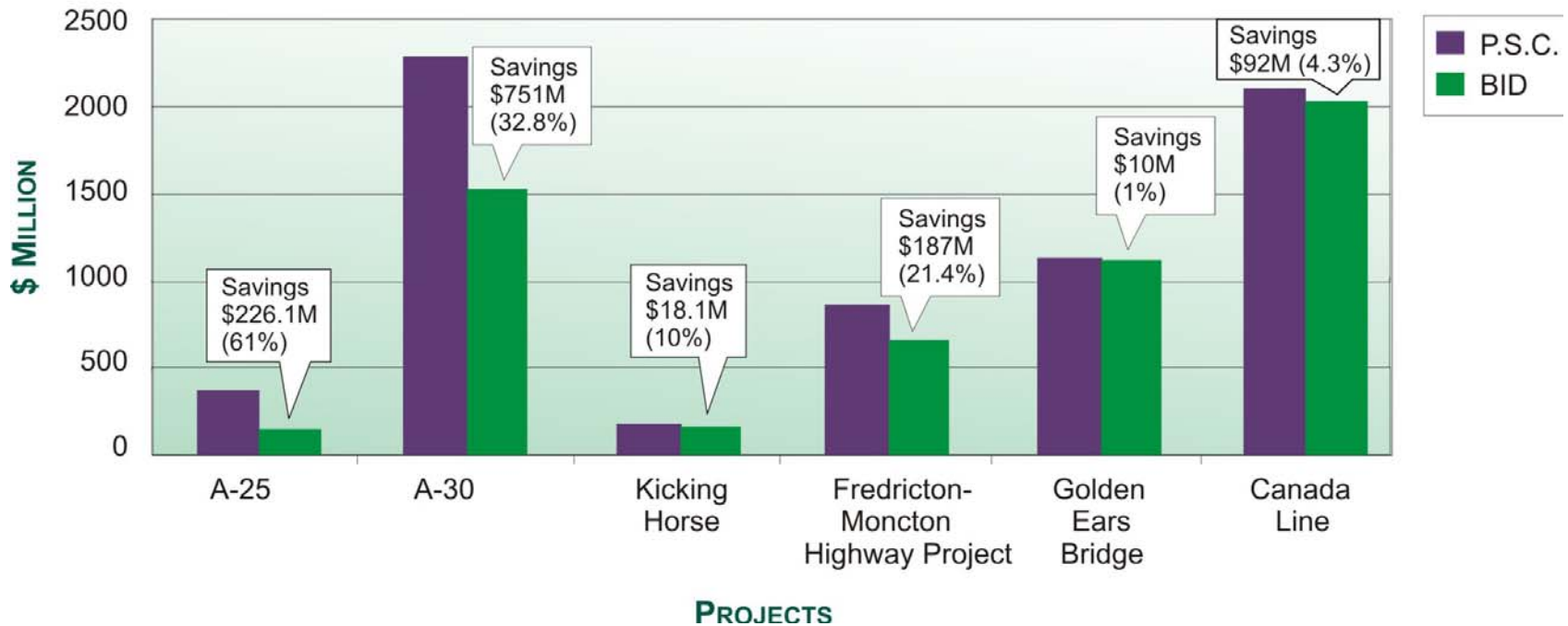
By way of a recent example, the Government of Quebec released the Value for Money report on the Autoroute 30 P3 project (a \$1.5 billion undertaking) on October 8, 2008, which validated the \$751 million in savings (32.8%) compared to the PSC. This clearly illustrates the need for the PSC and its subsequent role in demonstrating Value for Money to both government agencies and the public.

Value for Money

- The value for money analysis compares the risk adjusted Net Present Cost (NPC) of the comparator and that of private finance initiative.
- NPC Includes:
 - the whole life costs,
 - financing costs,
 - “optimism bias”,
 - risk transfer, and
 - transaction cost.

Examples of Value for Money Savings on Canadian P3 Transportation Projects

P3 Value for Money Summary



Public Policy Benefits

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Questions

For Further Information:

http://www.ncturnpike.org/projects/Mid_Currituck/

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