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VALUE FOR MONEY ASSESSMENT

HIGHWAY 407 EAST – PHASE 2 PROJECT



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Dear Ms. Quinn:

Re: Value for Money Analysis – Highway 407 East Phase 2

Ernst & Young Orenda Corporate Finance (“EYOCF”) has prepared the Value for Money (“VFM”) assessment for the Highway 407 East Phase 2 Project at the Financial Close (“FC”) stage. The analysis was prepared following an Infrastructure Ontario (“IO”) VFM analytical framework, which is generally consistent with approaches used in other jurisdictions.

The VFM assessment is based on a comparison of the total project costs of the Highway 407 East Phase 2 Project under:

1. The Traditional delivery approach, as reflected in the Public Sector Comparator (“PSC”) model; and
2. The Alternative Financing and Procurement (“AFP”) model estimation of the total project costs, as reflected in the Adjusted Successful Bid.

The VFM assessment as noted above was prepared using the following information (collectively the “Information”) within the VFM model:

- i. A Risk Matrix developed for IO by MMM Group and adjusted to reflect project specific risks; and
- ii. Construction and other cost estimates as reflected in the Successful Bid. Other VFM model assumptions as provided by IO.

The cost information and underlying assumptions were not independently audited or verified for accuracy or completeness.

The results of the VFM assessment demonstrate an estimated VFM cost savings of 22.9% by using the AFP approach to deliver the Project in comparison to using the traditional delivery approach.

Yours sincerely,

*Ernst & Young Orenda
Corporate Finance Inc.*

ERNST & YOUNG ORENDA CORPORATE FINANCE INC.

A member firm of Ernst & Young Global Limited



November 21, 2014

Ms. Lauren Goss
Procurement Coordinator
Infrastructure Ontario
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Toronto, Ontario M5G 2C8

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RE: Fairness Advisor Attestation

Procurement Process associated with the Request for Proposals # 13-308P: Highway 407 East Phase 2 Alternative Financing and Procurement Project

Dear Ms. Goss,

Please accept this letter as my attestation of the above referenced procurement process.

In my opinion the procurement process for Highway 407 East Phase 2 Alternative Financing and Procurement Project has fully met provincial standards of an open, fair and transparent process as articulated in the Provincial Procurement Directives.

The remainder of this letter provides more detail on our observations and findings.

Infrastructure Ontario ("IO") has completed their procurement for the Highway 407 East Phase 2 Alternative Financing and Procurement Project. Knowles Canada has been retained by the IO to provide Fairness Advisory services.

As Fairness Advisor our role is to act as an independent observer of the process, to monitor procurement activities and to provide advice on how IO can achieve an appropriate level of fairness, openness and transparency.

As Fairness Advisor we have been directly involved in all aspects of the procurement process. We were given an opportunity to review and comment on a draft version of the RFP and were able to provide comments and suggestions.

Once the RFP was posted we monitored incoming questions (RFI's) and reviewed the proposed responses; we attended and observed all commercially confidential meetings with the proponents; we reviewed all Addenda and all Notes.

During the RFP open period we were given an opportunity to review and comment on the draft evaluation material. We noted that IO staff were responsive to our comments.

On the RFP closing date we observed the closing process to make certain it was done in accordance with the method described in the RFP.

In terms of the evaluation process, we attended the evaluator training session and presented information on best practice for evaluators from a fairness perspective.

Once the evaluators had completed their scoring of the technical (rated) requirements, we attended and observed the consensus scoring sessions. We also attended and observed the consensus scoring of the financial evaluation results.

Once the technical and financial evaluations were done, the results were presented to the project Executive Committee. We attended and observed the presentation of the evaluation results to the Executive Committee.

Throughout the course of the procurement process, IO was quick to advise us of the situation and seek our advice on best practices. IO has consistently demonstrated throughout the process an eagerness to ensure they have conducted this procurement in an open, fair and transparent manner.

In our professional opinion, Infrastructure Ontario has conducted this procurement process to a high standard of openness, transparency and fairness. The RFP was clearly written and IO was very diligent in their efforts to ensure all proponents were treated in an unbiased and consistent manner.

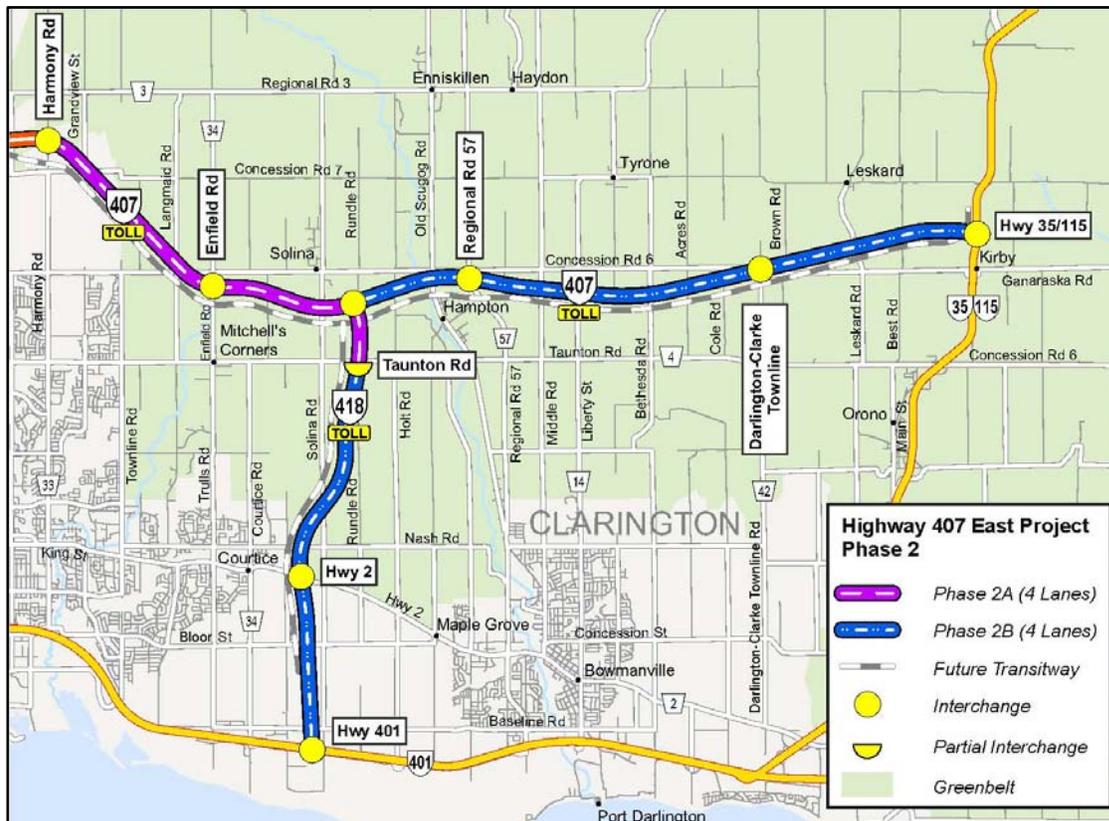
Yours truly,
KNOWLES CONSULTANCY SERVICES INC.



**BILL MOCSAN,
FAIRNESS ADVISOR**

cc. Ms. Danielle Sampson

Highway 407 East Phase 2 Project Artist's Rendering



Courtesy of Ministry of Transportation

Project Highlights

Highway 407 East Phase 2 project will:

- Extend Highway 407 about 22 kilometres from Harmony Road in Oshawa to Highway 35/115 in Clarington;
- Connect Highways 401 and 407 East with a 10-kilometre Highway 418 (formerly known as the East Durham Link) that will serve as a north-south freeway; and
- Provide eight new interchanges, including three freeway-to-freeway connections to Highway 407 East and Highway 401 from Highway 418 and Highway 35/115.

Community Benefits

During construction, the project will help strengthen the economy, creating 1,000 construction jobs.

Community Value Plan features include enhanced corridor landscaping; gateway features and architectural structural details; wildlife crossings; and wetland restoration.

The Highway 407 East Phase 2 will be a toll road and owned by the Ontario government.

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Summary

The Highway 407 East Phase 2 project 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 postsecondary 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 Highway 407 East Phase 2 project is being delivered under the Province's AFP model. The highway will provide commuters with more efficient access to the Greater Toronto Area, relieve congested areas of Highway 401 and improve the movement of services and goods across Ontario.

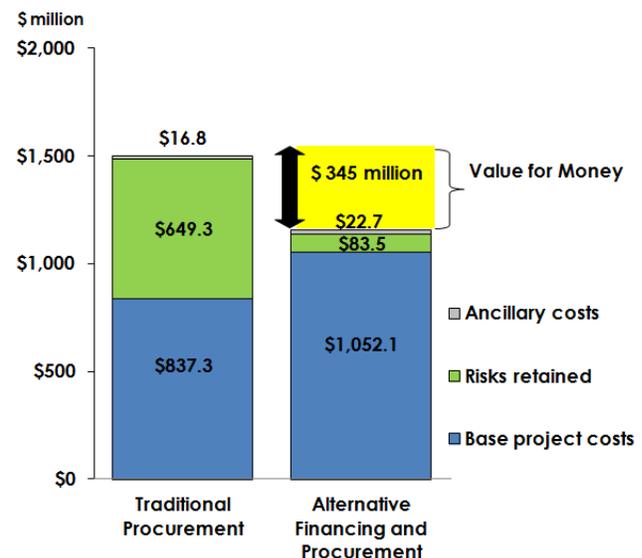
The purpose of this report is to provide a summary of the project scope, the procurement process and the project agreement, and to demonstrate how value for money was achieved by delivering the project through the AFP process.

The value for money analysis refers to the process of developing and comparing the total project costs under two different delivery models, which are 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.



Ernst & Young completed the value for money assessment of the Highway 407 East Phase 2 project. Their assessment demonstrates projected cost savings of 22.9 per cent or \$345 million by delivering the project using the AFP model, versus what it would have cost to deliver the project using a traditional delivery model.

Knowles acted as the Fairness Monitor for the project. They reviewed and monitored the communications, evaluations and decision-making processes associated with the project, ensuring the fairness, equity, objectivity, transparency and adequate documentation of the process. Knowles certified that these principles were maintained throughout the procurement process (see letter on page 3).

Infrastructure Ontario is working with the Ministry of Transportation to deliver the project, which will remain publicly owned and 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.

Project Scope

Infrastructure Ontario has the task of delivering the Highway 407 East Phase 2 project, on time, on budget and meeting all project requirements. This project 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.

Highway 407 East Phase 2 is proceeding under Infrastructure Ontario's design, build, finance, maintain (DBFM) model. This model transfers to the private sector the appropriate risks associated with designing, constructing and financing a complex project, such as the new highway.

The project scope includes:

- Extending Highway 407 easterly about 22 kilometres from Harmony Road in Oshawa to Highway 35/115 in Clarington;
- Connecting Highways 401 and 407 East with a 10-kilometre Highway 418 that will serve as a north-south freeway; and
- Providing eight new interchanges, including three freeway-to-freeway connections to Highway 407 East and Highway 401 from Highway 418 and Highway 35/115.

The project will be a tolled highway, owned and controlled by the Ontario government. The government will regulate and collect the tolls and ensure customer service objectives are met.

Phase 2 of the project began in spring 2015. The initial portion of Phase 2 from Harmony Road to Taunton Road / Highway 418 will open to traffic by end of 2017, with the remaining portion to be completed by the end of 2019.

Job Creation

The project is generating economic stimulus by creating and supporting jobs. At the peak of construction, it is estimated that 1,000 workers will be on the site daily.

Competitive selection process timeline

Infrastructure Ontario has entered into a Project Agreement with Blackbird Infrastructure 407 General Partnership (Blackbird Infrastructure) to design, build, finance and maintain the Highway 407 East Phase 2 project. The procurement stages for the project were as follows:

March 25, 2013

Request for Qualifications

Infrastructure Ontario issued a request for qualifications for the project which resulted in three building teams being short-listed:

Blackbird Infrastructure 407 General Partnership

- Developers: Holcim (Canada) Inc. and Cintra Infraestructuras Internacional S.L.
- Constructors: Holcim (Canada) Inc. and Ferrovial Agroman Canada
- Designers: Urban Systems, AIA Engineers and Louis Berger Group
- Maintainers: Holcim (Canada) Inc. and Cintra Infraestructuras Internacional S.L.
- Financial Advisor: Cintra Infraestructuras Internacional S.L.

East End Transportation Group

- Developer: ACS, Fengate
- Constructors: Dragados Canada, AMICO, and BOT Construction
- Designers: AECOM, Hatch Mott MacDonald, Morrison Hershfield, and Exp Services Inc.
- Maintainers: ACS, Fengate
- Financial Advisor: National Bank

407E Infrastructure Group

- Developer: SNC-Lavalin, AECOM, Miller Paving
- Constructors: SNC-Lavalin, AECOM, Miller Paving Ltd.
- Designer: MMM Group
- Maintainer: SNC-Lavalin, AECOM, Miller Paving
- Financial Advisor: SNC-Lavalin Capital

April 15, 2014

Request for Proposals

A request for proposals (RFP) was issued to the short-listed proponents, setting out the bid process and proposed project agreements to design, build, finance and maintain the project.

September 30, 2014

Proposal submission

The RFP period closed and three bids were received. The bids were evaluated using the criteria set out in the RFP.

January 16, 2015

Preferred proponent notification

Blackbird Infrastructure was selected as the first ranked (preferred) proponent, based on predetermined criteria in the RFP, including technical requirements, construction schedule, price and financial backing, in accordance with the evaluation criteria set out in the RFP.

Blackbird Infrastructure 407 General Partnership

- Developers: Holcim (Canada) Inc. and Cintra Infraestructuras Internacional S.L.
- Constructors: Holcim (Canada) Inc. and Ferrovial Agroman Canada
- Designers: Urban Systems, AIA Engineers and Louis Berger Group
- Maintainers: Holcim (Canada) Inc. and Cintra Infraestructuras Internacional S.L.
- Financial Advisor: Cintra Infraestructuras Internacional S.L.

March 10, 2015

Commercial and Financial Close

A project agreement was executed between Blackbird Infrastructure and Infrastructure Ontario.

Spring 2015– end 2019

Construction Phase

During the construction period, the builder's construction costs will be funded by its lenders in monthly installments based on the construction program set out by Dufferin Construction and Ferrovial Agroman Canada.

Construction will be carried out in accordance with the project agreement. The project will be overseen by a joint project committee made up of representatives from Infrastructure Ontario and the Ministry of Transportation.

Completion and payment

Blackbird Infrastructure will receive payment from the Province when the initial portion of the project reaches substantial completion at the end of 2017. A second payment will be provided when the final portion reaches substantial completion, expected at the end of 2019.

Project agreement

Legal and commercial structure

The Province entered into a project agreement with Blackbird Infrastructure, comprising approximately 57 months of site work and construction. Under the terms of the project agreement, Blackbird Infrastructure will:

- design and build the 407 East Phase 2 project;
- finance the design, construction and capital costs over the term of the project;
- obtain third-party independent certification that the highway is built to the requirements of the Province as outlined in the Project Agreement;
- provide maintenance and lifecycle maintenance of the highway for the 30-year service period; and
- ensure that at the end of the contract term, the highway meets the conditions specified in the Project Agreement.

Blackbird Infrastructure will receive payment from the Province when the initial portion of the project reaches substantial completion at the end of 2017. A second payment will be provided when the final portion reaches substantial completion, expected at the end of 2019.

Following construction completion of each phase, the province will begin to make monthly operation, maintenance and rehabilitation payments over the duration of the 30-year contract period. These payments will be based on performance requirements defined in the Project Agreement. Payments will cover the costs for construction, operations, maintenance, rehabilitation and project financing.

Design, build and completion risk

All infrastructure 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 planning, unknown site conditions,

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 under traditional delivery are contractually transferred to Blackbird Infrastructure. On a traditional project, these risks and resource availability can lead to cost overruns and delays. Examples of risks transferred to the private sector under the AFP project agreement include:

Construction price certainty

Blackbird Infrastructure payments 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

Blackbird Infrastructure has agreed to reach substantial completion of the first portion of the project by the end of 2017 and completion of the second portion by the end of 2019.

The project schedule can only be modified in very limited circumstances, in accordance with the project agreement. Substantial completion payments for both portions of the project will not proceed until the sections have been certified as substantially complete by an independent consultant.

Blackbird Infrastructure is responsible for any costs associated with delays that are their responsibility.

Site conditions and contamination

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

Permits, licences and approvals

Blackbird Infrastructure is responsible for applying, obtaining, maintaining, renewing and complying with all permits, licences and approvals.

Construction financing

Blackbird Infrastructure is required to finance the construction of the project until it is substantially complete. Blackbird Infrastructure will be responsible for all increased financing costs should there be any delay in reaching substantial completion. This shifts significant financial risk to Blackbird Infrastructure in the case of late delivery.

Commissioning

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

Activity protocols

Blackbird Infrastructure and Infrastructure Ontario 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 Blackbird Infrastructure 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;
- specifying the limited criteria under which change orders will be processed and applied;
- timely notification of change orders to Infrastructure Ontario; and

- approval by Infrastructure Ontario for any change orders which exceed pre-determined thresholds

In addition to the transfer of the above key risks to Blackbird Infrastructure under the project documents, the financing arrangement entered into between Blackbird Infrastructure and its lenders ensures that the project is subject to additional oversight, which may include:

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

Maintenance and Operation

Blackbird Infrastructure will ensure that all maintenance work on the highway:

- is in accordance with the Output Specifications;
- meets good industry practice;
- allows the road to remain operational at all times; and
- is consistent with maintenance standards of Ministry of Transportation Area Maintenance Contracts

Blackbird Infrastructure will be penalized for road conditions that fall below Project Agreement requirements. Throughout the maintenance and operation phase, Blackbird Infrastructure is required to submit regular Asset Condition Reports to the Province.

Hand back requirements

- On expiry of the Project Agreement, Blackbird Infrastructure must ensure the highway is in the condition specified by the Project Agreement.
- Prior to the expiration of the Project Agreement, an independent inspector will assess the highway’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 Blackbird Infrastructure.

Achieving value for money

For the Highway 407 East Phase 2 project, Ernst & Young's value for money assessment demonstrates the AFP approach provides a projected cost savings of 22.9 per cent or \$345.0 million compared to using a traditional delivery model.

Ernst & Young 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, and transparent assessment. Please refer to the letter from Ernst & Young on page 2.

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.

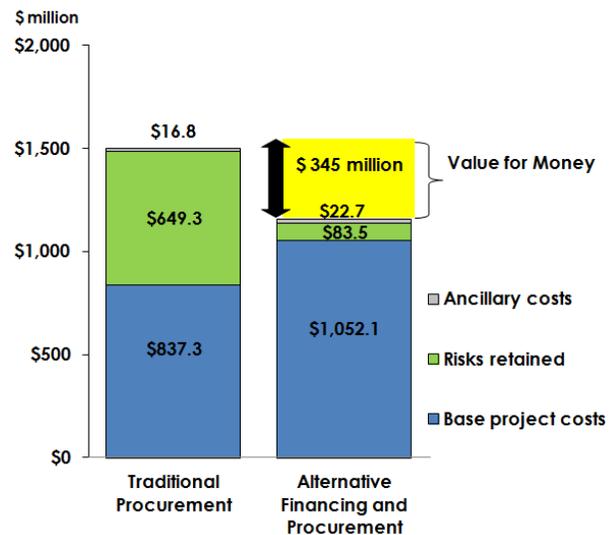
Model #1 Traditional project delivery (Public sector comparator)	Model #2 Alternative Financing and Procurement
Total project costs that would have been incurred by the public sector to deliver an infrastructure project under traditional procurement processes.	Total project costs incurred by the public 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 construction project management.

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



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, the use of the AFP approach will more likely result 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

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 future 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.

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 and finance 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 Blackbird Infrastructure and include all design, construction 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 private 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.

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 Highway 407 East Phase 2 project, these were \$1052.1 million.

If the traditional model had been used for the Highway 407 East Phase 2 project, net base costs are estimated to be \$837.3 million.

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 are keys 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 detailed 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 11-12, 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 Blackbird Infrastructure:

- design compliance with the output specifications;
- design and build price certainty;
- scheduling, project completion and potential delays;
- design and build co-ordination;
- site conditions and contamination;
- permits, licences and approvals;
- construction period financing;
- schedule contingency;
- activity protocols;
- lifecycle;
- deployment of solution

Examples of these risks include:

- *Design and build coordination/completion:* Under the AFP approach, the developer is responsible for design and build activities to ensure that the facility is constructed in full accordance with the output-based specifications in the project agreement. The builder is responsible for inconsistencies, conflicts, interferences or gaps in the design and build submittals.
- *Scheduling, project completion and delays:* Under the AFP approach, Blackbird Infrastructure has agreed that it will provide the Ministry with a completed highway by 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 builder will not be paid by the Province, thus providing the builder a clear motivation to maintain the project's schedule. Further oversight includes increased upfront due diligence and project management controls imposed by the builder and the builder's lender.

Infrastructure Ontario retained an experienced, third-party construction consulting firm, Altus Helyar, to develop a template for assessing the project risks (later amended and endorsed by MMM Group) 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 highway.

Using the AFP model reduces these risks to the public sector. For example, had this project been delivered using the traditional approach, design coordination risks that arise would be carried out through a series of change orders issued during construction. Such change orders would, therefore, be issued in a non-competitive environment, and would typically result in a significant increase in overall project costs for 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 Blackbird Infrastructure.

A detailed risk analysis of the project concluded that the average value of project risks retained by the public sector under traditional delivery is \$649.3 million. The analysis also concluded that the average value of project risks retained by the public sector under the AFP delivery model decreases to \$83.5 million. This is a risk transfer of \$565.8 million for Ontario taxpayers.

Ancillary costs

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 Highway 407 East Phase 2 project 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. Transaction costs are likely to be higher under AFP given the greater degree of up-front due diligence. The ancillary costs for the Highway 407 East Phase 2 project under the traditional delivery method are estimated to be \$16.8 million compared to \$22.7 million under the AFP approach.

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 Ernst & Young 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, and controls imposed by both the lenders and Infrastructure Ontario's standardized AFP procurement process.

Once all the cost components 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 Highway 407 East Phase 2 project, the estimated traditional delivery cost (i.e. PSC) is \$1503.3 million as compared to \$1158.4 million under the AFP delivery approach.

The positive difference of \$345 million or 22.9 per cent represents the estimated value for money by using the AFP delivery approach in comparison to the traditional delivery model.