

SCHEDULE 7

ANNUAL ADJUSTMENT PROCESS

Definitions

1. In this Schedule, unless the context otherwise requires:

(a) **"Changes to Inventory Adjustment Factor"** means, in respect of a Contract Year;

(i) an amount equivalent to the Daily Cost for the immediately preceding Contract Year which would have resulted (calculated in accordance with the provisions of Schedule 6 ("Cost for Changes to Inventory")) based on the assumptions that:

(A) any changes to the Inventory made by the Province during that immediately preceding Contract Year under Section 7.1 of this Agreement were made on the first day of that immediately preceding Contract Year;

(B) the 2% threshold set out in Sections 7.3 and 7.4 of this Agreement were not operative; and

(C) no adjustment in the Annual Price applicable to that immediately preceding Contract Year was made pursuant to Article 8 of this Agreement;

divided by

(ii) an amount equivalent to the Daily Cost for the immediately preceding Contract Year which would have resulted based on the assumptions that:

(A) there were no changes to the Inventory made by the Province during that immediately preceding Contract Year under Section 7.1 of this Agreement; and

(B) no adjustment in the Annual Price applicable to that immediately preceding Contract Year was made pursuant to Article 8 of this Agreement;

(b) **"Insurance Premium Adjustment Value"** means 80% of any increase/decrease in the annual insurance premium costs as indicated in the completed Insurance Premium Adjustment Form delivered by the Contractor pursuant to Section 18.4(b) compared to the Insurance Premium Quote or the annual insurance premium amount verification delivered by the Contractor pursuant to Section 18.4(b) for the immediately preceding Contract Year, as the case may be, subject to the Province determining the following to its satisfaction:

(i) that any such increase reflects a general increase in the annual premiums for such insurance based on the availability or otherwise of alternative quotes that may be

obtained on a competitive basis for the renewal or replacement of such insurance without taking into account the claims history of the Contractor itself with respect to the performance of its Services under the Agreement; and/or

- (ii) that the initial amount of the Insurance Premium Quote(s) or any subsequent annual premium amounts delivered under Section 18.4(b) was not based solely or in part on an agreement or arrangement, written or otherwise, by any person to artificially adjust such amounts.

The Province will be entitled to request whatever documents or information it may deem fit, including but not limited to statutory declarations in a form determined by the Province, from the Contractor and insurer(s) involved, as part of the above determinations.

- (c) **"Insurance Premium Quote"** means \$@@ or the total premium quote submitted by the Contractor's insurer pursuant to the Insurance Premium Adjustment Form for each subsequent Contract Year;
- (d) **"Labour Component"** means the portion of Annual Price assumed to represent labour costs and will be measured using the annual average of the Fixed-weighted Index of Average Hourly Earnings for all employees (SEPH), excluding overtime, unadjusted for seasonal variation, for selected industries classified under the North American Industry Classification System (NAICS); British Columbia; Industrial Aggregate excluding unclassified businesses available from the CANSIM database and made available by Statistics Canada in Table 281-0039 in respect of a calendar year, or, if not available, such other similar wage index selected by the Province. The Province, upon its annual receipt of Statistics Canada's letter of the revised official statistics for Table 281-0039, will calculate the year over year percentage change for the Labour Component of the Price Adjustment, including the data from the preceding 2 years pursuant to the illustration in Appendix 3 of this Schedule;
- (e) **"Materials Component"** means the portion of the Annual Price assumed to represent material costs and will be measured using the Annual Average of the Electric Utility Construction Price Index for materials available from the CANSIM database and made available by Statistics Canada in Table 327-0011 in respect of a calendar year, or, if not available, such other similar index selected by the Province. The year over year percentage change for the Materials Component of the Price Adjustment Factor will be calculated and drawn from CANSIM within 10 business days of the date the Labour Component is drawn as outlined in Section 1(d) of this Schedule;
- (f) **"Fuel Component"** means the portion of price assumed to represent fuel costs and will be measured using the Annual Average of Industry Price Indexes for Non-Metallic Mineral Products and Petroleum and Coal Products, by regions; British Columbia; Diesel Fuel available from the CANSIM database and made available by Statistics Canada in Table 329-0066 in respect of a calendar year, or, if not available, such other similar index selected by the Province. The year over year percentage change for the Fuel Component of the Price Adjustment Factor will be calculated and drawn from CANSIM within 10

business days of the date the Labour Component is drawn as outlined in Section 1(d) of this Schedule;

(g) **"Residual Component"** means the portion of the Annual Price assumed to represent the remainder of the Contractor's variable costs in the agreement and will be measured using the Annual Average of the Consumer Price Index for British Columbia, British Columbia all-items basket from the CANSIM database and made available by Statistics Canada in Table 326-0020 in respect of a calendar year, or, if not available, of such other similar index selected by the Province (CPI). The year over year percentage change for the Residual Component of the Price Adjustment Factor will be calculated and drawn from CANSIM within 10 business days of the date the Labour Component is drawn as outlined in Section 1(d) of this Schedule;

(h) **"Price Adjustment Factor"** means, in respect of a calendar year, the aggregate of:

(i) 35% of:

(A) the Fixed-weighted Index of Average Hourly Earnings for the immediately preceding calendar year, minus;

(B) the Fixed-weighted Index of Average Hourly Earnings for the calendar year immediately preceding the calendar year described in clause (A) of this subparagraph (i);

divided by the Fixed-weighted Index of Average Hourly Earnings for the calendar year immediately preceding the calendar year described in clause (A) of this subparagraph (i); and

(ii) 10% of:

(A) the Annual Average of the Electric Utility Construction Price Index for the immediately preceding calendar year, minus;

(B) the Annual Average of the Electric Utility Construction Price Index for the calendar year immediately preceding the calendar year described in clause (A) of this subparagraph (ii);

divided by the Annual Average of the Electric Utility Construction Price Index for the calendar year immediately preceding the calendar year described in clause (A) of this subparagraph (ii); and

(iii) 10% of:

(A) the Annual Average of Industry Price Indexes for Non-Metallic Mineral Products and Petroleum and Coal Products for the immediately preceding calendar year, minus;

- (B) the Annual Average of Industry Price Indexes for Non-Metallic Mineral Products and Petroleum and Coal Products for the calendar year immediately preceding the calendar year described in clause (A) of this subparagraph (iii);

divided by the Annual Average of Industry Price Indexes for Non-Metallic Mineral Products and Petroleum and Coal Products for the calendar year immediately preceding the calendar year described in clause (A) of this subparagraph (iii); and

- (iv) 37% of:

- (A) the Annual Average of the Consumer Price Index for British Columbia for the immediately preceding calendar year, minus;

- (B) the Annual Average of the Consumer Price Index for British Columbia for the calendar year immediately preceding the calendar year described in clause (A) of this subparagraph (iv);

divided by the Annual Average of the Consumer Price Index for British Columbia for the calendar year immediately preceding the calendar year described in clause (A) of this subparagraph (iv).

Calculation of Price Index Adjustment Factor

2. The Province will, by no later than the end of the month of April of each calendar year or as soon as reasonably practicable after receipt of the revised official statistics for Table 281-0039 referenced in Section 1(d) of this Schedule:
 - (a) calculate the Price Adjustment Factor for the calendar year; and
 - (b) provide to the Contractor copies of the calculations.
3. Two sample Price Adjustment Factor calculations are set out in Appendix "2" attached to this Schedule.

Calculation of Other Adjustments

4. By no later than the beginning of each Contract Year of this Agreement, the Province will:
 - (a) calculate the Changes to Inventory Adjustment Factor and the changes to the Contract Year;
 - (b) calculate the Adjusted Annual Price for the Contract Year in accordance with the formula set out in Appendix "1" attached to this Schedule;

- (c) calculate revised rates applicable to Additional Services for the Contract Year by adjusting the rates applicable to Additional Services in effect at the beginning of the immediately preceding Contract Year;
- (d) calculate revised daily and yearly rates for the changes to Inventory for the Contract Year by adjusting the daily and yearly rates in the changes to Inventory in effect at the beginning of the immediately preceding Contract Year by the Price Index Adjustment Factor; and
- (e) include where applicable the cost of adjustments made to Routine Maintenance Services pursuant to Article 8 of this Agreement during the Contract Year.

Provision of Calculations and Notice of Fees Adjustments

- 5. The Province will provide to the Contractor copies of the calculations described in Section 4 of this Schedule forthwith upon the completion of the calculations.

Calculation Disagreements

- 6. If the Contractor should disagree with any of the calculations the Contractor may:
 - (a) within 30 days of receipt of the calculations, notify the Province in writing of its disagreement, specifying the reasons therefore; and
 - (b) if the parties have not resolved a disagreement within 30 days of notification being given under Subsection 6(a) of this Schedule, the Province will refer the disagreement to Arbitration pursuant to Article 22 of this Agreement, which Arbitration will be conducted by an independent professional accountant.

Delivery of Revised Schedules and Tables

- 7. As soon as reasonably practicable after the calculations described in Section 4 of this Schedule become final and binding after 30 days pursuant to Section 6 of this Schedule or Article 22 of this Agreement, the Province will prepare and deliver to the Contractor revised:
 - (a) Schedule 4 ("Inventory"), Table A;
 - (b) Schedule 5 ("Fee"), Appendix 1 – Payment Schedule;
 - (c) Schedule 6 ("Cost for Changes to Inventory"); and
 - (d) Schedule 8 ("Additional Services"), Appendix 1 – Unit Prices for Additional Services.reflecting those calculations and adjusted fees as applicable.

Rounding

8.
 - (a) The numbers used in any of the calculations made in accordance with this Schedule and the numbers resulting from the calculations made under Subsection 2(a) and 4(a) of this Schedule will be rounded, as necessary, to 5 decimal places; and
 - (b) The numbers resulting from the calculations made under Subsections 4(b), (c), (d) and (e) of this Schedule will be rounded, as necessary, to 2 decimal places.

Changes in Bases of Indices

9. If any of the indices used as proxies for the Labour, Materials, Fuel or Residual Components for a calendar year is published with a different base from that of the previous calendar year, the Province may adjust the affected value of the index so that the value of the index for each calendar year has a common base prior to including the value of the index in the calculation of the Price Adjustment Factor.

APPENDIX 1 (TO SCHEDULE 7)

ADJUSTED ANNUAL PRICE FORMULA

1. The formula for calculating the Adjusted Annual Price for a Contract Year under Section 4 (b) of this Schedule is:

$$[(A - B) \times C \times D + B] + E \pm F^{(1)} \quad \underline{\text{OR}} \quad [(A - B \pm F^{(2)}) \times C \times D + B] + E$$

where the capital letters in this formula have the following meanings:

- "A" equals the Annual Price for the immediately preceding Contract Year prior to the making of any adjustments during that immediately preceding Contract Year pursuant to Articles 7 and/or 8 of this Agreement;
 - "B" equals the Insurance Premium Quote and/or the annual insurance premium amount verification delivered by the Contractor pursuant to Section 18.4(b) and applicable on the commencement of the immediately preceding Contract Year;
 - "C" equals the Changes to Inventory Adjustment Factor for the Contract Year;
 - "D" equals the Price Adjustment Factor for the last calendar year ending prior to the beginning of the Contract Year;
 - "E" equals the Insurance Premium Adjustment Value; and
 - "F" equals the cost of adjustments made to the Routine Maintenance Services pursuant to Article 8 of this Agreement during the Contract Year, if applicable.
2. Sample calculations of the Adjusted Annual Price for 2 Contract Years are set out in Appendix "3" attached to this Schedule.

Notes:

- (1) If an adjustment is made pursuant to Article 8 of this Agreement which is effective at the beginning of the Contract Year, the annual value of the change will be added at the end of the calculation of the Annual Price after all other calculations have been made.
- (2) If during the Contract Year an adjustment is made pursuant to Article 8 of this Agreement, the Province will update the Schedule 5 ("Fee") Appendix 1 to reflect the prorated portion of the annual value of the adjustment to the end of the Contract Year and the full annual value of the change to Services will be included in the following Contract Year's annual adjustment before the Changes to Inventory Adjustment Factor and the Insurance Premium Adjustment Value are applied.

APPENDIX 2 (TO SCHEDULE 7)

The Price Adjustment Factor is an annual adjustment for variable costs only. The Province estimates that the variable costs are 92% of the total costs. These variable costs are outside the direct control of the Contractor and specifically exclude fixed costs which take the form of overhead and profit.

SAMPLE PRICE ADJUSTMENT FACTOR CALCULATION

FOR CONTRACT YEAR 2⁽¹⁾

COMPONENT	2008 ⁽¹⁾	2009 ⁽¹⁾	% Change	% Weighting	Inflation
Labour ⁽²⁾	119.99	122.93	2.45%	35%	0.858%
Materials ⁽³⁾	167.6	167.5	-0.06%	10%	-0.006%
Fuel ⁽⁴⁾	257.50	169.63	-34.12%	10%	-3.412%
Residual ⁽⁵⁾	112.33	112.28	-0.04%	<u>37%</u>	<u>-0.016%</u>
Total Percentage				92%	-2.577%
Price Adjustment Factor (1 – 0.02577)					0.97423

(1) This sample calculation is for illustrative purposes only.

(2) Source: Statistics Canada, CANSIM database (V1606354) Table 281-0039, Industrial Aggregate excluding unclassified businesses Fixed-weighted Index of Average Hourly Earnings for all employees (Survey of Employment, Payrolls and Hours or SEPH), excluding overtime, unadjusted for seasonal variation, for selected industries classified under the North American Industry Classification System (NAICS) in British Columbia.

(3) Source: Statistics Canada, CANSIM database (V735226) Table 327-0011, Annual Average of the Electrical Utility Construction Price Index for materials.

(4) Source: Statistics Canada, CANSIM database (V53434494) Table 329-0066, Annual Average of Industry Price Indexes for Non-Metallic Mineral Products and Petroleum and Coal Products, by regions; British Columbia.

(5) Source: Statistics Canada, CANSIM database (V41692462) Table 326-0020, Annual Average of the Consumer Price Index for British Columbia (CPI), British Columbia all-items basket.

Please Note: CANSIM data is available free of charge and can be accessed using the following link:
<http://www5.statcan.gc.ca/cansim/home-accueil?lang=eng>.

APPENDIX 2 (TO SCHEDULE 7) - CONTINUED

SAMPLE PRICE ADJUSTMENT FACTOR CALCULATION

FOR CONTRACT YEAR 3⁽¹⁾

COMPONENT	2009⁽¹⁾	2010⁽¹⁾	% Change	% Weighting	Inflation
Labour ⁽²⁾	122.52	124.38	1.52%	35%	0.531%
Materials ⁽³⁾	166.6	169.8	1.92%	10%	0.192%
Fuel ⁽⁴⁾	169.88	190.61	12.20%	10%	1.220%
Residual ⁽⁵⁾	111.90	113.84	1.74%	<u>37%</u>	<u>0.642%</u>
Total Percentage				92%	2.585%
Price Adjustment Factor (1 + 0.2585)					1.02585

(1) This sample calculation is for illustrative purposes only.

(2) Source: Statistics Canada, CANSIM database (V1606354) Table 281-0039, Industrial Aggregate excluding unclassified businesses Fixed-weighted Index of Average Hourly Earnings for all employees (Survey of Employment, Payrolls and Hours or SEPH), excluding overtime, unadjusted for seasonal variation, for selected industries classified under the North American Industry Classification System (NAICS) in British Columbia.

(3) Source: Statistics Canada, CANSIM database (V735226) Table 327-0011, Annual Average of the Electrical Utility Construction Price Index for materials.

(4) Source: Statistics Canada, CANSIM database (V53434494) Table 329-0066, Annual Average of Industry Price Indexes for Non-Metallic Mineral Products and Petroleum and Coal Products, by regions; British Columbia.

(5) Source: Statistics Canada, CANSIM database (V41692462) Table 326-0020, Annual Average of the Consumer Price Index for British Columbia (CPI), British Columbia all-items basket.

Please Note: CANSIM data is available free of charge and can be accessed using the following link:
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APPENDIX 3 (TO SCHEDULE 7)
SAMPLE ADJUSTED ANNUAL PRICE CALCULATION
FOR CONTRACT YEAR 2

<u>Description</u>	<u>Action</u>	<u>Amount</u>	<u>Ref.</u>
Base Annual Price		\$ 2,000,000.00	A
Insurance Premium Quote provided in the Proposal	subtract (-)	<u>20,000.00</u>	B
Subtotal	equals (=)	<u>\$ 1,980,000.00</u>	
Changes to Inventory Adjustment Factor <i>(Assumes 1% increase. Equals 1 + 0.01000)</i>	multiply (x)	1.01000	C
Price Adjustment Factor <i>(refer to Appendix 2, sample calculation for Contract Year 2)</i>	multiply (x)	0.97423	D
Annual Insurance Premium Quote for the First Contract Year	add (+)	20,000.00	B
Adjusted Annual Price before insurance and Routine Maintenance Service charges	equals (=)	<u>\$ 1,968,265.15</u>	
New Insurance Premium Quote (Contract Year 2)		22,000.00	
Less: Insurance Premium Quote provided in the Proposal		<u>20,000.00</u>	
Total difference in Insurance Premium Quote		2,000.00	
Insurance Premium Adjustment Value <i>(\$2,000 x 0.80 = \$1,600)</i>	add (+)	\$ 1,600.00	E
Changes to Routine Maintenance Services, if applicable <i>(based on an assumed \$3,000 <u>increase</u> in services)</i>	<u>add (+)</u> or subtract (-)	<u>3,000.00</u>	F ⁽¹⁾
Adjusted Annual Price	equals (=)	<u>\$ 1,972,865.15</u>	

The numbers used in this sample calculation are for illustrative purposes only.

APPENDIX 3 (TO SCHEDULE 7) – CONTINUED

SAMPLE ADJUSTED ANNUAL PRICE CALCULATION

FOR CONTRACT YEAR 3

<u>Description</u>	<u>Action</u>	<u>Amount</u>	<u>Ref.</u>
Adjusted price for the preceding Contract Year (Contract Year 2)		\$ 1,972,865.15	A
Annual Insurance Premium Quote for the preceding Contract Year (Contract Year 2)	subtract (-)	22,000.00	B
Changes to Routine Maintenance Services, if applicable <i>(based on an assumed \$1,000 <u>decrease</u> in services)</i>	add (+) or <u>subtract (-)</u>	<u>1,000.00</u>	F ⁽²⁾
Subtotal	equals (=)	<u>\$ 1,949,865.15</u>	
Changes to Inventory Adjustment Factor <i>(Assumes 1% increase. Equals 1 + 0.01000)</i>	multiply (x)	1.01000	C
Price Adjustment Factor <i>(refer to Appendix 2, sample calculation for Contract Year 3)</i>	multiply (x)	1.02585	D
Annual Insurance Premium Quote for the immediately preceding Contract Year (Contract Year 2)	add (+)	22,000.00	B
Adjusted Annual Price before insurance charges	equals (=)	<u>\$ 2,042,271.86</u>	
New Insurance Premium Quote (Contract Year 3)		21,000.00	
Less: Preceding Year Insurance Premium Quote (Contract Year 2)		<u>22,000.00</u>	
Total difference in Insurance Premium Quote		-1,000.00	
Insurance Premium Adjustment Value <i>(-\$1,000 x 0.80 = -\$800)</i>	add (+)	\$ -800.00	E
Adjusted Annual Price	equals (=)	<u>\$ 2,041,471.86</u>	

The numbers used in this sample calculation are for illustrative purposes only.

APPENDIX 4 (TO SCHEDULE 7)

INVENTORY CHANGE DETAIL FORM

Contract Year @@ Inventory Change Detail
@@ Service Area

Location		Action		Description	Date
Main Street	Cross Street	Add	Remove		
Fully actuated signalized intersection					
	TOTAL	0	0		
Pedestrian actuated signal					
	TOTAL	0	0		
Pedestrian actuated flasher (special x-walks / solar powered) / fire signal					
	TOTAL	0	0		
Luminaire					
	TOTAL	0	0		
Island flasher					
	TOTAL	0	0		
Solar powered island flasher					
	TOTAL	0	0		
4-way flasher					
	TOTAL	0	0		
Overhead warning sign E220					
	TOTAL	0	0		
Permanent count station / ATIS cabinet					
	TOTAL	0	0		
Changeable message sign (also referred to as dynamic message sign)					
	TOTAL	0	0		
Open / closed / chain up sign					
	TOTAL	0	0		
Web camera					
	TOTAL	0	0		

Remote web camera (greater than 250km one way from Base Location)					
	TOTAL	0	0		
Overheight detector					
	TOTAL	0	0		
UPS / solar power unit					
	TOTAL	0	0		
69 KV transformer station					
	TOTAL	0	0		
Speed reader board					
	TOTAL	0	0		
LED chevron					
	TOTAL	0	0		

NOTE: This form is to be submitted in accordance with Section 18.4(a).

APPENDIX 5 (TO SCHEDULE 7)

INSURANCE PREMIUM ADJUSTMENT FORM

This form is to be completed by an authorized representative of the insurer

Basic Information:

Contractor: _____		
Name of Insurance Broker: _____		
Service Area/Contract Description: _____		
Contract Term:	Adjustment Year:	Contract Year (___) to Year (___)
_____	_____	
<i>From (yyyy/mm/dd)</i>	<i>From (yyyy/mm/dd)</i>	
_____	_____	
<i>To (yyyy/mm/dd)</i>	<i>To (yyyy/mm/dd)</i>	

General Liability Coverage:

Required Limit of Liability \$ _____

	Insurer	Premium Quote
Primary		
Excess		

TOTAL		
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Approvals:

Signature of Authorized Representative of Insurer

Company Name

Name of Authorized Representative of Insurer (Printed)

Date (yyyy/mm/dd)

NOTE: This form is to be submitted in accordance with Section 18.4.