

SCHEDULE "2"

Annual Adjustment Process

Definitions

1. In this Schedule, unless the context otherwise requires:
 - (a) **"B.C. Road Builders"** means The B.C. Road Builders and Heavy Construction Association;
 - (b) **"Changes to Highways 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 Part 1 of the Cost Schedule) based on the assumptions that:
 - (A) any changes to the Highways made by the Province during that immediately preceding Contract Year under section 6.1 of this Agreement were made on the first day of that immediately preceding Contract Year,
 - (B) the 2% thresholds set out in sections 6.2 and 6.3 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 7 of this Agreementdivided 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 Highways made by the Province during that immediately preceding Contract Year under section 6.1 of this Agreement, and
 - (B) no adjustment in the Annual Price applicable to that immediately preceding Contract Year was made pursuant to Article 7 of this Agreement expressed as a percentage;
 - (c) **"Changes to Maintenance Services Adjustment Factor"** means, in respect of a Contract Year,
 - (i) an amount equivalent to the Direct Cost Fee Component for the immediately preceding Contract Year which would have resulted (calculated in accordance with provisions of section 7.3 of this Agreement) based on the assumptions that

- (A) any changes to the Maintenance Services made by the Minister during that immediately preceding Contract Year under section 7.2 of this Agreement were made on the first day of that immediately preceding Contract Year, and
- (B) no adjustment in the Annual Price applicable to that immediately preceding Contract Year was made pursuant to Article 6 of this Agreement

divided by

- (ii) an amount equivalent to the Direct Cost Fee Component for the immediately preceding Contract Year which would have resulted (calculated in accordance with provisions of section 7.3 of this Agreement) based on the assumptions that
 - (A) there were no changes to the Maintenance Services made by the Minister during that immediately preceding Contract Year under section 7.2 of this Agreement, and
 - (B) no adjustment in the Annual Price applicable to that immediately preceding Contract Year was made pursuant to Article 6 of this Agreement

expressed as a percentage;

- (d) **"Fuel Index"** means the annual average of the diesel fuel price index for British Columbia published by Statistics Canada (Statistics Canada Table 329-0047) in respect of a calendar year or, if not available, such other similar index selected by the Minister, after consultation with B.C. Road Builders;
- (e) **"Insurer Premium Adjustment Factor"** means 80% of any increase/decrease in the annual insurance premium payable amount verification delivered by the Contractor pursuant to Section 14.4(i), as may be verified by information and documents provided pursuant to Section 14.4(j), or pursuant to Section 14.5, from the Insurer Premium Quote, or from the annual insurance premium verification delivered by the Contractor pursuant to Section 14.4(i), as may be verified by information and documents provided pursuant to Section 14.4(j), or pursuant to Section 14.5, and applicable on the commencement of the immediately preceding Contract Year, as the case may be, excluding any premium adjustments that may have been made during the preceding Contract Year;
- (f) **"Labour Index"** means annual average of the Fixed-weighted Indexes of Average Hourly Earnings, for all Employees, for Selected Industries, Canada, Provinces and Territories: British Columbia (Statistics Canada, Catalogue No. 72-002-XPB – Table 3) or, if not available, such other similar public sector wage index selected by the Minister, after consultation with B.C. Road Builders;
- (g) **"Price Index Adjustment Factor"** means, in respect of a calendar year, the aggregate of

- (i) 40% of
 - (A) the Labour Index for the immediately preceding calendar year, minus
 - (B) the Labour Index for the calendar year immediately preceding the calendar year described in clause (A) of this subparagraph (i)

divided by the Labour Index for the calendar year immediately preceding the calendar year described in clause (A) of this subparagraph (i), and

- (ii) 5% of
 - (A) the Fuel Index for the immediately preceding calendar year, minus
 - (B) the Fuel Index for the calendar year immediately preceding the calendar year described in clause (A) of this subparagraph (ii)

divided by the Fuel Index for the calendar year immediately preceding the calendar year described in clause (A) of this subparagraph (ii), and

- (iii) 27.5% of
 - (A) the Residual Index for the immediately preceding calendar year, minus
 - (B) the Residual Index for the calendar year immediately preceding the calendar year described in clause (A) of this subparagraph (iii)

divided by the Residual Index for the calendar year immediately preceding the calendar year described in clause (A) of this subparagraph (iii);

- (h) **(intentionally left blank)**; and
- (i) **"Residual Index"** means the annual average of the non-residential building construction price index for Vancouver, British Columbia published by Statistics Canada (Statistics Canada Table 327-0039) in respect of a calendar year or if not available, of such other similar index selected by the Minister, after consultation with B.C. Road Builders.

Calculation of Price Index Adjustment Factor

2. Commencing with the calendar year beginning on January 1, 2007, the Minister will, by no later than the end of the month of April, of each calendar year, or as soon as reasonably practicable after publication of the Statistics Canada Catalogue referenced in section 1 of this Schedule:
 - (a) calculate the Price Index Adjustment Factor for the calendar year; and
 - (b) provide to the Contractor copies of the calculations.

3. Two sample Price Index Adjustment Factor calculations are set out in Appendix "2" attached to this Schedule.

Calculation of Other Adjustment Factors

4. By no later than the beginning of each Contract Year described in subsection 1.1 (r)(ii) and (iii) of this Agreement, the Minister will:
 - (a) calculate the Changes to Highways Adjustment Factor and the Changes to Maintenance Services Adjustment Factor for 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) if the Changes to Highways Adjustment Factor for the Contract Year is other than zero, calculate revised quantities of Quantified Maintenance Services for the Contract Year by adjusting the quantity of Quantified Maintenance Services in effect at the beginning of the immediately preceding Contract Year by the Changes to Highways Adjustment Factor;
 - (d) calculate revised unit prices applicable to Quantified Maintenance Services for the Contract Year by adjusting the unit prices applicable to Quantified Maintenance Services in effect at the beginning of the immediately preceding Contract Year, subject to any changes to those unit prices determined during that immediately previous Contract Year in accordance with section 7.8 of this Agreement, by the Price Index Adjustment Factor; and
 - (e) calculate revised daily and yearly rates for the Cost Schedule for the Contract Year by adjusting the daily and yearly rates in the Cost Schedule in effect at the beginning of the immediately preceding Contract Year by the Price Index Adjustment Factor.

Provision of Calculations and Notice of Fees Adjustments

5. The Minister 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 referenced in section 5 of this Schedule, the Contractor may:
 - (a) within 30 days of receipt of the calculations, notify the Province in writing of its disagreement, specifying the reasons therefor; 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 Minister will refer the disagreement to arbitration pursuant to Article 19 of this Agreement, which arbitration will be conducted by an independent professional accountant selected by the Minister.

Calculations Final and Binding

7. Subject to section 6 of this Schedule, the calculations of the Minister described in section 4 of this Schedule will be final and binding on the parties.

Delivery of Revised Schedules and Tables

8. As soon as reasonably practicable after the calculations described in section 4 of this Schedule become final and binding pursuant to section 7 of this Schedule or Article 19 of this Agreement, the Minister will prepare and deliver to the Contractor:

- (a) a revised Cost Schedule;
- (b) revised Schedule 5,

reflecting those calculations and adjusted fees, as applicable.

Rounding

- 9.
- (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 4(a) of this Schedule will be rounded, as necessary, to five decimal places.
 - (b) The numbers resulting from the calculations made under subsections 4(b) and (c) of this Schedule will be rounded, as necessary, to whole numbers.
 - (c) The numbers resulting from the calculations made under subsections 4(d) and (e) of this Schedule will be rounded, as necessary, to two decimal places.

Changes in Bases of Indexes

10. If either the Labour, Fuel or Residual Index for a calendar year is published with a different base from that of the same index for the previous calendar year, the Minister may adjust the affected index so that the index for each calendar year has a common base prior to including the index in the calculation of the Price Index Adjustment Factor.

APPENDIX "1" (TO SCHEDULE "2")

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:

$$[A \times B \times C \times D] \pm E$$

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 6 or 7 of this Agreement;
 - "B" equals the Changes to Highways Adjustment Factor for the Contract Year;
 - "C" equals the Changes to Maintenance Services Adjustment Factor for the Contract Year;
 - "D" equals one plus the Price Index Adjustment Factor for the last calendar year ending prior to the beginning of the Contract Year.
 - "E" is the Insurer Premium Adjustment Factor which shall be added to the formula in years where it represents an increase and subtracted from the formula in years where it represents a decrease.
2. A sample calculation of the Adjusted Annual Price is set out in Appendix "3" attached to this Schedule.

APPENDIX "2" (TO SCHEDULE "2")

Sample Price Index Adjustment Factor Calculation ⁽¹⁾

INDEX	2000	2001	% Change	% Weighting	Inflation
Labour Index ⁽²⁾	103.5	105.2	1.64%	40%	0.657%
Fuel Index ⁽³⁾	137.4	133.1	-3.13%	5%	-0.157%
Residual Index ⁽⁴⁾	104.9	106.4	1.43%	27.5%	<u>0.393%</u>
Price Index Adjustment Factor					<u>+0.893%</u>

(1) The numbers used in this sample calculation are for illustrative purposes only and on the assumption that an annual price adjustment is to be made during the specified year.

(2) Source Statistics Canada, Catalogue No. 72-002-XPB – Table 3, annual average of the Fixed-weighted Indexes of Average Hourly Earnings, for all Employees, for Selected Industries, Canada, Provinces and Territories: British Columbia, 2000-2001.

(3) Source: Statistics Canada, Statistics Canada Table 329-0047, annual average of the Diesel Fuel price index for British Columbia, 2000-2001.

(4) Source: Statistics Canada, Statistics Canada Table 327-0039, annual average of the non-residential building construction price index for Vancouver, British Columbia, 2000-2001.

Sample Price Index Adjustment Factor Calculation No. 2⁽¹⁾

INDEX	1999	2000	% Change	% Weighting	Inflation
Labour Index ⁽²⁾	101.0	103.5	2.48%	40%	0.990%
Fuel Index ⁽³⁾	93.9	137.4	46.33%	5%	2.32%
Residual Index ⁽⁴⁾	102.8	104.9	2.04%	27.5%	<u>0.562%</u>
Price Index Adjustment Factor					<u>3.872%</u>

(1) The numbers used in this sample calculation are for illustrative purposes only and on the assumption that an annual price adjustment is to be made during the specified year.

(2) Source Statistics Canada, Catalogue No. 72-002-XPB – Table 3, annual average of the Fixed-weighted Indexes of Average Hourly Earnings, for all Employees, for Selected Industries, Canada, Provinces and Territories: British Columbia, 1999-2000

- (3) Source: Statistics Canada, Statistics Canada Table 329-0047, annual average of the Diesel Fuel price index for British Columbia, 1999-2000**
- (4) Source: Statistics Canada, Statistics Canada Table 327-0039, annual average of the non-residential building construction price index for Vancouver, British Columbia, 1999-2000**

APPENDIX "3" (TO SCHEDULE "2")

Sample Adjusted Annual Price Calculation

Annual Price of \$12,000,000 for immediately preceding Contract Year \$12,000,000 (A)

Less:

As the case may be, the Insurer Premium Quote, or the annual insurance premium amount verification delivered by the Contractor pursuant to Section 14.4(i) , as may be verified by information and documents provided pursuant to Section 14.4(j), or pursuant to Section 14.5, from the Insurer Premium Quote, or from the annual insurance premium verification delivered by the Contractor pursuant to Section 14.4(i), as may be verified by information and documents provided pursuant to Section 14.4(j), or pursuant to Section 14.5, and applicable on the commencement of the immediately preceding Contract Year, excluding any premium adjustments that may have been made during the course of that preceding Contract Year (100,000)

\$11,900,000

Changes to Highways Adjustment Factor (99%) times 0.99000 (B)

Changes to Maintenance Services Adjustment Factor (102%) times 1.02000 (C)

1 + Price Index Adjustment Factor (1 + 0.893%) times 1.00893 (D)

Plus:

As the case may be, the Insurer Premium Quote, or the annual insurance premium amount verification delivered by the Contractor pursuant to Section 14.4(i) , as may be verified by information and documents provided pursuant to Section 14.4(j), or pursuant to Section 14.5, from the Insurer Premium Quote, or from the annual insurance premium verification delivered by the Contractor pursuant to Section 14.4(i), as may be verified by information and documents provided pursuant to Section 14.4(j), or pursuant to Section 14.5, and applicable on the commencement of the immediately preceding Contract Year, excluding any premium adjustments that may have been made during the course of that preceding Contract Year 100,000

Adjusted Annual Price		\$12,223,928
Plus/Minus the Insurer Premium Adjustment Factor	*	8,000 (E)
*assumes 10% (\$10,000) increase in insurance premium		
Adjusted Annual Price	\$	12,231,928

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