

## SCHEDULE "6"

### ANNUAL ADJUSTMENT PROCESS

#### 1. Definitions

1.1 In this Schedule, unless the context otherwise requires:

- (a) **"Annual Average"** means a 12 month average of an index for a consecutive 12 month period beginning January 1 and ending December 31;
- (b) **"Changes to Infrastructure Adjustment Factor"** means, in respect of a Contract Year:
  - (i) an amount equivalent to the Daily Price for the immediately preceding Contract Year which would have resulted (calculated in accordance with the provisions of Schedule 7 ("Rates for Changes to Infrastructure")) based on the assumptions that:
    - (A) any changes to the Changeable Infrastructure Components 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% threshold set out in sections 6.3 and 6.4(a) of this Agreement was not operative; and
    - (C) 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 Daily Price for the immediately preceding Contract Year which would have resulted (calculated in accordance with the provisions of Schedule 7 ("Rates for Changes to Infrastructure")) based on the assumptions that:
    - (A) there were no changes to the Changeable Infrastructure Components 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 6 of this Agreement, expressed as a percentage;
- (c) **"Changes to Maintenance Services"** means, in respect of a Contract Year, an amount equivalent to the value of the changes to Maintenance Services for the immediately preceding Contract Year which would have resulted (calculated in accordance with provisions of section 7.5 of this Agreement) based on the assumptions that any changes to the Maintenance Services made by the Province during that immediately preceding Contract Year under Article 7 of this Agreement were made on the first day of that immediately preceding Contract Year;
- (d) **"Fuel Component"** means the portion of the Annual Price assumed to represent fuel costs, 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 Canadian Socio-

Economic Information Management System (CANSIM) database and made available by Statistics Canada in Table 329-0076 in respect of a calendar year, or, if not available, such other similar index selected by the Province after consultation with B.C. Road Builders and Heavy Construction Association. The year over year percentage change for the Fuel Component of the Price Adjustment Factor shall be calculated using the data from the preceding two calendar years as illustrated in the sample calculation in Appendix C and drawn from CANSIM within 10 business days of the date the Labour Component is drawn as outlined in subsection 1.1(f) of this Schedule;

- (e) **"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 subsection 15.10(b) of this Agreement compared to the Insurance Premium Quote or the annual insurance premium amount verification delivered by the Contractor pursuant to subsection 15.10(b) of this Agreement 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; and/or
  - (ii) that the initial amount of the Insurance Premium Quote(s) or any subsequent annual premium amounts delivered under subsection 15.10(b) of this Agreement was not based solely or in part on an agreement or arrangement, written or otherwise, by any person to artificially adjust such amounts,

and as part of the above determinations, the Province shall be entitled to request whatever documents or information it may deem fit, in its sole discretion, including but not limited to, statutory declarations and certificates of a senior officer in a form determined by the Province, from the Contractor and insurer(s) involved;

- (f) **"Labour Component"** means the portion of the Annual Price assumed to represent labour costs, 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 after consultation with B.C. Road Builders and Heavy Construction Association. The Province, upon its annual receipt of Statistics Canada's letter of the revised official statistics for Table 281-0039, shall calculate the year over year percentage change for the Labour Component of the Price Adjustment Factor, using the data from the preceding 2 calendar years pursuant to the sample calculation in Appendix C of this Schedule;
- (g) **"Price Adjustment Factor"** means, in respect of a calendar year, the aggregate of:
- (i) 47% 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) 8% of:

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

(B) the Annual Average of Industry Price Indices 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 (ii),

divided by the Annual Average of Industry Price Indices 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 (ii); and

(iii) 38% of:

(A) the Annual Average of the Non-Residential Building Construction Price Index for Vancouver, British Columbia for the immediately preceding calendar year,

minus

(B) the Annual Average of the Non-Residential Building Construction Price Index for Vancouver, British Columbia for the calendar year immediately preceding the calendar year described in clause (A) of this subparagraph (iii),

divided by the Annual Average of the Non-Residential Building Construction Price Index for British Columbia for the calendar year immediately preceding the calendar year described in clause (A) of this subparagraph (iii); and

(h) "**Residual Component**" means the portion of the Annual Price assumed to represent the remainder of the Contractor's variable costs in this Agreement, measured using the Annual Average of the Non-Residential Building Construction Price Index for Vancouver, British Columbia made available by Statistics Canada in Table 327-0043 in respect of a calendar year, or, if not available, such other similar wage index selected by the Province after consultation with B.C. Road Builders and Heavy Construction Association. The year over year percentage change for the Residual Component of the Price Adjustment Factor shall be calculated and drawn from Statistics Canada within 10 Working Days of the date the Labour Component is drawn using the data from the preceding two calendar years pursuant to the sample calculation in Appendix C, as outlined in subsection 1.1(f) of this Schedule.

## 2. Calculation of the Price Adjustment Factor

2.1 The Province shall, 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 subsection 1.1(f) of this Schedule:

(a) calculate the Price Adjustment Factor for the calendar year; and

(b) provide to the Contractor copies of the calculations.

2.2 One sample Price Adjustment Factor calculation is set out in Appendix B of this Schedule.

### 3. Calculation of Other Adjustments

3.1 By no later than the beginning of each Contract Year of this Agreement, the Province shall:

- (a) calculate the Changes to Infrastructure Adjustment Factor and the value of the Changes to Maintenance Services for the Contract Year;
- (b) calculate the Adjusted Annual Price for the Contract Year in accordance with the formula set out in Appendix A of this Schedule;
- (c) if the Changes to Infrastructure Adjustment Factor for the Contract Year is other than zero, calculate the 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 Infrastructure Adjustment Factor;
- (d) calculate the revised Unit Prices and Total Lump Sum Value applicable to Quantified Maintenance Services for the Contract Year by adjusting the Unit Prices and the Total Lump Sum Value applicable to Quantified Maintenance Services in effect at the beginning of the immediately preceding Contract Year, subject to any changes to those Unit Prices and Total Lump Sum Value determined during that immediately previous Contract Year in accordance with Schedule 2 ("Quantified Maintenance Services") of this Agreement, by the Price Adjustment Factor;
- (e) calculate the daily and yearly rates for Schedule 7 ("Rates for Changes to Infrastructure") for the Contract Year by adjusting the daily and yearly rates in effect at the beginning of the immediately preceding Contract Year by the Price Adjustment Factor; and
- (f) calculate the Automated Weather Station Fee pursuant to section 2 of Schedule 10 ("Automated Weather Stations") for the Contract Year by adjusting the Automated Weather Station Fee in effect at the beginning of the immediately preceding Contract Year by the Price Adjustment Factor.

### 4. Provision of Calculations and Notice of Fees Adjustments

4.1 The Province shall provide to the Contractor copies of the calculations described in section 3 of this Schedule forthwith upon the completion of the calculations.

### 5. Calculation Disagreements

5.1 If the Contractor should disagree with any of the calculations provided by the Province pursuant to section 5, the Contractor may:

- (a) within 30 days of receipt of the calculations from the Province, notify the Province in writing of its disagreement, specifying the reasons therefor, and:
  - (i) if the parties have resolved the disagreement within 30 days of notification being given under subsection 5.1(a) of this Schedule, the calculations resolved by the parties shall become final and binding; or
  - (ii) if the parties have not resolved the disagreement within 30 days of notification being given under subsection 5.1(a) of this Schedule, the Province shall refer the disagreement to

arbitration pursuant to Article 19 of this Agreement, which arbitration shall be conducted by an independent professional accountant.

- 5.2 If the Contractor does not provide written notice of its disagreement, specifying the reasons therefor, within 30 days of receipt of the calculations from the Province, the calculations provided by the Province shall become final and binding.

## **6. Delivery of Revised Schedules and Tables**

- 6.1 Once the calculations described in section 4 of this Schedule become final and binding pursuant to subsection 5.1(a)(i), section 5.2 of this Schedule or Article 19 of this Agreement, the Province shall as soon as reasonably practicable thereafter, prepare and deliver to the Contractor revised:

- (a) Appendix A of Schedule 2 ("Quantified Maintenance Services");
- (b) Appendix A of Schedule 7 ("Rates for Changes to Infrastructure");
- (c) Appendix A of Schedule 10 ("Automated Weather Station"); and
- (d) Appendix A, Appendix B and Appendix C of Schedule 8 ("Infrastructure"),

reflecting those calculations and adjusted fees as applicable.

## **7. Rounding**

### **7.1**

- (a) The numbers used in any of the calculations made in accordance with this Schedule and the numbers resulting from the calculations made under subsections 2.1(a) or 3.1(a) of this Schedule shall be rounded, as necessary, to 5 decimal places;
- (b) The numbers resulting from the calculations made under subsections 3.1(b), 3.1(d) and 3.1(e) of this Schedule shall be rounded, as necessary, to 2 decimal places; and
- (c) The numbers resulting from the calculations made under subsections 3.1(c) and 3.1(f) of this Schedule shall be rounded to whole numbers.

## **8. Changes in Bases of Indices**

- 8.1 If any of the indices used as proxies for the Labour Component, Fuel Component or Residual Component 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 A (TO SCHEDULE 6)

### Adjusted Annual Price Formula

1. The formula for calculating the Adjusted Annual Price for a Contract Year under subsection 3.1(b) of this Schedule is:

$$[(A-i) \times B \times C] + i +/- D +/- E$$

where the 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;
  - "i" equals Insurance Premium Quote for the immediately preceding Contract Year;
  - "B" equals the Changes to Infrastructure Adjustment Factor for the Contract Year;
  - "C" equals the Price Adjustment Factor for the last calendar year ending prior to the beginning of the Contract Year;
  - "D" is the Insurance Premium Adjustment Value 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; and
  - "E" equals the value for Changes to Maintenance Services for the Contract Year.
2. A sample calculation of the Adjusted Annual Price is set out in Appendix C attached to this Schedule.

## APPENDIX B (TO SCHEDULE 6)

### Sample Price Adjustment Factor Calculation <sup>(1)</sup>

COMPONENT	2015	2016	2017		Inflation
			% Change	% Weighting	
Labour Component <sup>(2)</sup>	138.98	141.93	2.12%	47%	0.9976%
Fuel Component <sup>(3)</sup>	95.51	85.93	-10.03%	8%	-0.8024%
Residual Component <sup>(4)</sup>	151.10	157.25	4.07%	<u>38%</u>	<u>1.5467%</u>
<b>Total Percentage</b>				93% <sup>(5)</sup>	<b>1.7419%</b>
<b>Price Adjustment Factor</b>		(1 + 0.01742)			<b>1.01742</b>

(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 (V79310205) Table 329-0076, Annual Average of Industry Price Indexes for Non-Metallic Mineral Products and Petroleum and Coal Products, by regions; British Columbia.

(4) Source: Statistics Canada, CANSIM database (V44176052) Table 327-0043, Non-residential building construction by class of structure; Vancouver, British Columbia (Quarterly).

(5) The Price Adjustment Factor is an annual adjustment for variable costs only. The Province estimates that the variable costs are 93% 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.

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 C (TO SCHEDULE 6)

Sample Adjusted Annual Price Calculation

<u>Description</u>	<u>Action</u>	<u>Amount</u>	<u>Ref</u>
Annual Price for the immediately preceding Contract Year		\$12,000,000.00	A
Insurance Premium Quote for the immediately preceding Contract Year	Subtract (-)	<u>\$100,000.00</u>	i
<i>Sub-total</i>	Equals (=)	<i>\$11,900,000.00</i>	
Changes to Infrastructure Adjustment Factor	Multiply (x)	0.99	B
Price Adjustment Factor (refer to Appendix B)	Multiply (x)	1.01742	C
Insurance Premium Quote for the immediately preceding Contract Year	Add (+)	<u>\$100,000.00</u>	i
<i>Sub-total</i>	Equals (=)	<i>\$12,086,225.02</i>	
New Insurance Premium Quote	\$150,000.00		
LESS preceding year Insurance Premium Quote	<u>-\$100,000.00</u>		
Net difference in Insurance Premium Quote	\$50,000.00		
Insurance Premium Adjustment Value (\$50,000.00 x 0.80 = \$40,000.00)	Add (+)	\$40,000.00	D
Changes to Maintenance Services	Add (+)	\$10,000.00	E
<b>Adjusted Annual Price</b>		<b><u>\$12,136,225.02</u></b>	

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



**APPENDIX D (TO SCHEDULE 6)**

**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		

<b>TOTAL</b>		
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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 subsection 15.10(b) of this Agreement.**