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SUMMARIZED RESULTS OF THE MEETINGS WITH INTERESTED SUPPLIERS REGARDING ENERGY SUBSYSTEM PROCUREMENT FO THE RAIL BALTICA GLOBAL PROJECT

Dates of the meetings:
12 - 15 October 2021

Location:
via Microsoft Teams;

Participants from RB Rail AS:
Aiga Benfelde – Procurement Manager;
Jean-Marc Bedmar – Head of Systems & Operation Department;
Uģis Sabulis – ENE Project Manager;
Antanas Šnirpūnas - Power supply Team Leader / Railway Systems &Operations;
Kaspars Briškens - Head of Strategy and Development Department;
Baiba Zauere - Head of Legal Department
Valdemar Kačanovskij - Real Estate and Construction Lawyer;
Natalja Vjatkina – Procurement Specialist – Lawyer;
Ieva Štrausa - Business Relationship Manager.

Other participants:
Representatives of interested suppliers.

Meetings' agenda

- Introduction to the Rail Baltica project and project schedule.
- Information on the planned scope and timeline for the implementation of full scope of ENE subsystem.
- Q&A session:
  - Part 1: RB Rail AS questions to suppliers
  - Part 2: Suppliers' answers
  - Part 3: Suppliers' questions
  - Part 4: RB Rail AS answers.

Scope and structure of consultation
The consultation was structured on two main moments:

1. A questionnaire to be completed by the participating companies and sent before the face-to-face session
2. A one and half an hour meeting with each of the participating companies in which to transfer some general information on the project and deepen some topics of interest to the parties.

This structure made it possible to obtain a larger amount of information through the questionnaire while leaving room for direct debate and questions from companies.

Project information provided during consultation
In relation to the state of development of the design and the project in general, and in line with the first two points of the agenda planned for meetings with the participating companies, the following information was provided:

- General technical information about the Rail Baltica Global Project
- Some specific parameters related to the ENE Subsystem
- About Rail Baltica's Governance Structure
- General information about the procurement platform that will be used
- General information on procurement procedure and time planning
- General information on the general plan for the implementation of the project
- General information about the scope of work

- About the ENE Subsystem time-line
- General technical information about the complexity of the project
- Information on a section schedules (e.g. for 140 km)

The information briefly described above is given in the attached presentation (Annex)

Applying Companies

The companies that have joined the initiative are the following: [CONFIDENTIAL]

In relation to their size in terms of turnover they were classified as: huge (more than 5 billion), large (from to 1 billion up to 5), medium (0.1 billion up to 0.5 billion) and small (under 0.1bilion).
The table below provides the classification data of the companies obtained based on the data provided by them in the questionnaires.

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The only calculated data in the table above is the Turnover/Employee, this data in relation to the specific sector to which it belongs, in a rough way, give a measure of how much the company produces on its own or uses subcontractors. Numbers between 100,000 and 200,000 are typical, for the sector, for enterprises that perform a significant part of their activities on their own, numbers above 200,000 indicate companies which are also manufacturers of equipment or that perform a significant amount of work through subcontractors. Numbers below 100,000 are typical of companies operating with many internal resources in the wider civil construction market (e.g. [CONFIDENTIAL]).

The Questionnaire

The questionnaire proposed to the participating companies is shown in the table below. The questionnaire has been reclassified according to the following main areas of investigation:

1. Supplier Profile
2. Scope of Work
3. Contractual form, Legal and Administrative issues
4. Risks and Mitigation measures
5. Procurement process
6. Project Management and Quality Assurance
7. -
8. Resource and Manpower
9. Other

The first group of questions: 1- Supplier Profile is aimed at investigating the characteristics of the potential contractor in terms of size, financial capacity, experience and technical capacity.
The second group: 2 -Scope of Work, wants to grasp what are the expectations and experiences in terms of definitions of the scope of work by companies.
The third group: 3 - Contractual form, Legal and administrative issues, intends to deepen the issues related to the contractual description of works and the related financial and cash-flow issues.
The fourth group: 4 - Risks and mitigation measures, seeks to take suggestions from companies in the sector regarding the identification and management of risks related to the project.
The fifth group: 5 - Procurement Process, wants to capture the expectations and suggestions of companies in terms of procurement procedures.
The sixth group: 6 - Project management and quality assurance, tries to grasp suggestions in terms of management and relationships between contracting station, engineer and designers / executors
The seventh group is empty
The eighth group: 8 - Resources and manpower, tries to identify the sizing of the operational structures necessary for the execution of the activities from the point of view of the company.

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The main objectives to be achieved in assigning the implementation activities of the ENE Subsystem are:

- Maximum value for money
- Minimum implementation time for the whole system

- Technologically uniform system that is easily operable and maintainable
- Minimal environmental impact
- Minimal cross-border impact

The questions asked are aimed at identifying:

- The appetite of companies to compete for the project
- The skills to be requested in terms of access to the competition in order not to limit the competition itself
- The possibility of pursuing the preferred scheme: a single Design& Build contract for the entire ENE Subsystem while maintaining a good level of participation
- The risks most perceived by companies in the sector
- Suggestions from the business world

Analysis of the consultations results

In the next paragraphs, a group-by-group analysis of the answers provided by potential suppliers will be carried out to address the considerations of the Deployment Strategy.

First Group: 1 - Supplier Profile

The answers provided by potential suppliers for the first group of questions are given in the following table:

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The sample of the companies analyzed well represents the companies in the sector being composed of 4 companies of category Huge, 3 companies of category Large, 5 companies of category Medium and 2 companies of category Small. Some of the very large ones are also OEMs and interested in placing some of their products on the project; others are specialized for example in the implementation of OCS or TPS systems, and in the case of multidisciplinary procurement they would need to group in JVs to participate; all, however, declare themselves very interested in participating in the procurement of ENE Subsystem even if in different way. You will then see the suggestions on the division of the scope of work.
Only some of the Huge category usually manage projects with a total value equal to or greater than the estimated value of the ENE Subsystem, most of the companies that participated in the consultation have directly executed or participated in the execution of projects of comparable value to the ENE Subsystem despite the fact that for many of them the average value of the projects carried out does not exceed a few tens of millions of euros or less.
Only some of the companies declare a certain familiarity with BIM, this skill seems the most critical, at least from the point of view of the declared technical skills in fact most of the sample seems not to be able to produce consolidated references in this field.

Second Group: 2 - Scope of Work

The answers provided by the Suppliers in the second group dedicated to the Scope of Work are shown in the table below, the analysis that will follow will tend to focus on some aspects such as the expectations of potential contractors in terms of design and requirements, subdivision of the purpose of the work and the critical issues highlighted:

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The first thing that can be detected from the analysis of the answers given in this group of questions is a large dispersion in the answers, in essence there is no prevailing vision neither transversal nor among enterprises of comparable size.
On the breakdown of the scope of work, are found in the answers, more or less all the possible schemes ranging from the single D & B contract (or even DB & M) to the subdivision by disciplines and sections, there are also proposals for the subdivision into design, supplies and works. More than the size of the companies, which counts, the focus of the company seems to prevail or rather what the company believes it can express as a competitive advantage. For example, large non-specialist manufacturers such as **[CONFIDENTIAL]** are basically interested in the size of the contract(s) (for values below 150 million they would not compete), other large ones such as **[CONFIDENTIAL]** would prefer to compete for the most important supplies and see participation in the execution a forcing with respect to their own characteristics, others still like **[CONFIDENTIAL]** show interest in global participation.

Basically, all the big ones would like functional requirements and design guidelines rather than a well-defined reference design so that they can produce their own solutions by also inserting their own products. Smaller companies would prefer more detailed tender design solutions to quote the activities in terms of price with greater certainty and being able to subsequently count on a simpler design management.
All of them, even if in different forms, indicate in the interfaces and civil works (unless [CONFIDENTIAL] who is mainly a civil constructor) connected to the contract elements of criticality even strong and ask that the interfaces be as clear as possible at the contractual level.
Given that, there is no clear orientation in terms of the scope of work, it does not seem that a specific packaging formula favours a better and wider competition between companies.
From the point of view of design, on the other hand, it would seem useful to compromise that, while clearly defining a feasible solution, leaves room for the proposal of suggestions for improvements, of which, however, the economic and temporal limits should be defined.

Third Group: 3 - Contractual form, Legal and administrative issues

The answers provided by the suppliers for the third group of questions, dedicated to aspects of a contractual nature, are shown in the table below, the questions are aimed at understanding the preferred contractual forms and financial aspects of the contract, the following analysis will highlight the common aspects highlighted by many of the participants the consultation:

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The answers received in this group of questions are quite homogeneous in terms of suggestions, most participants in the consultation without distinction between larger and medium/small companies are ready to sign a contract in the form recognized and used in the industry, e.g. the FIDIC Yellow Book.
Most companies expect an advance payment linked to the commencement of the contract in an amount between 10% and 20% (with a few exceptions), just as, especially medium-sized or small companies, they are careful to have in contract payment mechanisms that guarantee non-negative cash-flow in order to reduce the financing costs and risks related to the execution of the project. Especially large and medium-sized enterprises suggest progress measurement methods (for milestones or sections or plants) which, although not too complicated and expensive to feed, also allow regular payments. Also, participants have commonly indicated a need for regular price adjustment mechanism with several references proposed – steel index price, construction costs statistical price, etc.
From the point of view of guarantees (in particular for advance payment and performance bound) most potential contractors prefer bank or insurance guarantees rather than withholding on payments, again highlighting a high sensitivity to the possible financial costs associated with execution.

Group four: 4 - Risks and Mitigation measures

The answers provided by the suppliers for the fourth group of questions, dedicated to aspects of Risks and Mitigation, are shown in the table below, the questions are aimed at understanding the risks perception by contractors and the mitigation measures suggested:

[CONFIDENTIAL]

In a complex project with many interfaces and externalities, the issue of the correct identification of risks, the correct management and mitigation and ultimately the correct allocation (Contractors or Contracting Authority or both) is an important contractual issue that influences both participation in the competition and the definition of the price offered.
The questions proposed are many and attempt to cover the following topics:

- Uncertainty in the availability of funding for the implementation of the whole project
- Uncertainty in the scheduling of funding
- Risks related to the overall size of the project
- Uncertainty in the scheduling of project implementation
- Labour and Material price instability during the execution period
- Risks arising from interfaces
- Changes in scope of work

In general, the answers offered by potential contractors are not very thorough but allow you to envy the most felt issues.

On the question of the availability of funding, very different answers have also been obtained. It is our opinion that only some of the participants responded by having a clear idea of the financing mechanisms of the project. Most respondents consider it essential that portions of work that are certainly financed are activated, some of the interviewees ask for mechanisms to cover any mobilization costs if the funding does not allow a continuity of activities.
Everyone perceives uncertainties about timing, market fluctuations and interfaces as concrete risks that must be clearly addressed in contractual terms. To some extent, they all require a location of these risks at the contracting authority or a balanced distribution.
In particular, in connection with the uncertainties related to the time of realization of the works and the fluctuation of prices, everyone asks for adjustment formulas based on price indexation systems (materials and labor), but no one makes proposals in terms of activation times of the mechanisms (after 1 year, 3 years, 5 years from the signing of the contract) or specific adjustment formulas as well as for indexation references (only some refer to LTE as far as raw materials are concerned).
Many fear the effect of delays on other contracts (manly civil works and trackwork) and the effect of interfacing with third parties (in particular TSOs and territorial agencies or authorities) for which management by the contracting authority is requested.
In terms of changes in scope of work, potential contractors point to poor design definition, deficiency in design choices, delays in making design choices and design approvals, regulatory differences between the countries involved, and pressures exerted by third parties as sources of potential adjustments to the scope of work.
As far as guarantees are concerned, all the interlocutors declare themselves ready to guarantee the advance payment, to guarantee the performance and almost all to provide a professional guarantee according to the terms of the contract; only some interlocutors identify values, however, almost all see these vestments as elements of negotiation, from the interviews in presence it emerged that the maximum liability still needs a limitation in relation to the value of the contract or it is not acceptable for many a liability without limit; for some smaller interlocutors providing high-value guarantees could become a problem, so they ask for mechanisms to reduce the level of guarantees in relation to the part of the work performed and accepted by the customer.
To conclude, it can be said in general that most contractors are well disposed to take risks related to technical compliance while they are much less or not at all disposed of with respect to financial or random risks (such as market fluctuations), they are only partially willing to take on issues concerning execution times and interfaces.

Group fifth: 5 - Procurement process

The answers provided by the suppliers for the fifth group of questions, dedicated to aspects of Procurement Process, are shown in the table below, the questions are aimed at understanding the expectation of the potential contractors about the topics and the decision-making process for Bid-NoBid decision:

[CONFIDENTIAL]

The questions asked of the participants are aimed at understanding the following aspects of the tendering and award process:

- What elements influence the decision whether or not to participate in the competition
- What elements in terms of characteristics required for the pre-qualification of suppliers should be avoided and which should be used to obtain qualified participation from the contracting authority?
- What award criteria are expected
- What are the expected negotiation elements?
- What are the elements that can most influence the price offered?
- What times are expected for the pre-qualification and bid phases

With respect to the decision whether or not to participate in the competition, as expected, different and sometimes opposite criteria have been revised. While huge or large companies have said they are sensitive to the excessive splitting of the contract, the medium/small ones on the contrary hope so, not excluding however to seek partnerships capable of dealing with dimensions beyond their possibility. The issue of the risks allocated to the contractor is also a sensitive question and everyone is asking for them to be clearly defined. The availability of funding divides opinions, although they are all convinced that it is not possible to proceed with tranches of work without certainty of the financial resources.
With respect to the characteristics that the contracting authority should require from the participants, everyone agrees on the verification, albeit with different nuances, of the previous experience in similar works; for some participants the aspects of financial soundness should also be verified, others add verification in terms of available technical organization and operational one. Since the work has very large dimensions, the

commensuration of the technical, organizational, financial characteristics and in terms of previous experience, should be compared to the size of a single D&B contract, many could be excluded unless they accept JVs for which the characteristics are measured in terms of the sum of the characteristics of the JV partners. In this sense, many participants in the consultation ask that time limits of references to too short periods be avoided, or dimensions of the works previously carried out too large. Further requests go in the direction of excluding impositions in terms of the geographical origin of the participants (at least in the EU territory).
From the point of view of the award criteria, everyone expects a QCB system with very different percentages between the financial and technical part. On average, the suggestion that arrives provides for a prevalence of weight for the technical part compared to the economic part (Q = 60%-C = 40%).
Despite the direction emerging from the consultation, no clear suggestions can be identified in terms of defining the technical value of the offers; this leads to the thought that more or less all possible competitors fear competition at the best price, albeit for different reasons.
In terms of time deemed suitable for the pre-qualification and bid phases, the majority declares that the base-line provided (40 days Pre Qualification- 60 days Bid) would be insufficient, most of the participants propose to extend the times to 60Pre-90Bid up to a maximum of 90Pre-180Bid in case the procedure involves complex processing by the participants.
In terms of the elements most impacting the final price of the offer, different interpretations of demand are observed by the participants, who in some cases respond by highlighting the most expensive parts of the cost structure such as materials and labor, others highlight elements of risk that could be compensated with contingency such as execution times or market price fluctuations or even the availability of labor. Ultimately, there is no clear indication on this issue.
Finally, in terms of final suggestions, it should be noted that a large part of the participants would like the competition to be limited to European companies.

Group sixth: 6 - Project Management and Quality Assurance

The answers provided by the suppliers for the sixth group of questions, dedicated to aspects of Project Management and Quality Assurance, are shown in the table below, the questions are aimed at understanding the approach of the potential contractors about the topics and the expectation about the relationship with the contract authority and ENE Engineer:

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The questions asked by the participants in this section focus on the organizational aspects of the management and implementation of quality systems by contractors; they also seek to identify which aspects of the relationship with the contracting authority and the ENE Engineer are considered important or critical by the contractors; finally, the aspect of relations with local stakeholders is also investigated.
In relation to the organizational and quality management aspects, the answers obtained are mostly generic and mainly aim to confirm the implementation of standards. Only one case is a hypothesis of sizing of the organization to be provided, some of the participants provide information on some organizational figures considered important. Most potential contractors refer to standardized project management techniques (PMI).
In the relationship with the contracting authority and ENE Engineer, the majority points out the need to guarantee design approval certain time and not too complicated construction processes, the need to maintain a certain pragmatism in the decisions that will have to be taken is also pointed out. Most participants expect the customer to manage the interfaces and issues related to third parties.
Finally, everyone recognizes the importance of managing project stakeholders and the majority plan to use local resources and partners to make the process more effective.

Group eighth: 8 - Resource and Manpower

The answers provided by the suppliers for the eighth group of questions, dedicated to aspects of Resource and Manpower, are shown in the table below, the questions are aimed at understanding the approach of the potential contractors about the topics and the expectation in term of need of resources and manpower to implement the project:

[CONFIDENTIAL]

The questions asked to the participants are an attempt to better understand the sizing and the amount of means and people that will imply the realization of the project, however the exercise attempted in the absence of important parameters such as the conditions of availability of the infrastructure, the time allocated to complete the project or the several sections and other information necessary to size the structure have led to no answers and in any case those provided are in general not comparable with each other. Some common

lines are notable such as the almost unanimous recognition of the need to have local resources or local partnerships including any subcontractors to manage compliance with the design and construction standards of individual states.

Group ninth: 9 - Others

The answers provided by the suppliers for the ninth group of questions, are shown in the table below, the questions are not categorized in the other group.

[CONFIDENTIAL]

ANNEX - Supplier consultations RB Rail presentation.ppt