SCHEDULE 3

Payment Mechanism

1A GENERAL

1A.1 Rebasing for IX2 in the Period between the Commencement Date and the Amendment and Restatement Date

As at the Amendment and Restatement Date, the rates and prices contained within this Schedule 3 (Payment Mechanism) (save for those related to the NWTF Fixed Payment and Electricity Revenues) have been uplifted from a price base date of 1 April 2008 to the revised Price Base Date of 1 April 2011 and have therefore been increased by 12.115% (being the increase in IX2 in the period from 1 April 2008 to 31 March 2011).

1A.2 Part-Year Provisions

The anticipated commencement of operations at the NWTF now coincides with the beginning of a Contract Year (1 April 2017) and the Expiry Date coincides with the end of a Contract Year (31 March 2042), therefore the part-year provisions in the version of the Payment Mechanism as at the Commencement Date are no longer applicable and, for clarity, have as at the Amendment and Restatement Date been deleted. Relevant time-related rates and prices included in this Payment Mechanism therefore equate to the payments which are due in respect of a full Contract Year or a full Payment Period, as applicable. In the event that any component of payment is due over a period which is less than the full applicable period (for example due to the impact of a Relevant Event or Relief Event), payments shall be pro-rated as appropriate.

1. UNITARY CHARGE

1.1 Principal Formula

The Unitary Charge (UC_y) for each Contract Year following the Initial Services Commencement Date shall be calculated using the following formula:

$$\mathbf{UC_y = NWTF_y + HWRC_y + LF_y + NNDR_y + HCW_y + SPS_y - ER_y}$$

Where:

UC_y	=	the Unitary Charge for the relevant Contract Year
$NWTF_y$	=	the amount payable in respect of the New Waste Treatment Facility in the relevant Contract Year calculated in accordance with **paragraph** 1.2 of this **Schedule 3**
$HWRC_y$	=	The amount payable in respect of HWRCs and Contract Transfer Stations in the relevant Contract Year calculated in accordance with **paragraph** 1.3 of this **Schedule 3**

LF_y = the amount payable in respect of Landfill in the relevant Contract Year calculated in accordance with **paragraph 1.4** of this **Schedule 3**

$NNDR_y$ = the reimbursement to the Contractor of any NNDR properly payable in respect of the facilities referred to in **paragraph 1.5** of this **Schedule 3** in the relevant Contract Year

HCW_y = the amount payable in respect of Specified Hazardous Waste and/or Clinical Waste disposed of by the Contractor in the relevant Contract Year calculated in accordance with **paragraph** 1.6 of this **Schedule 3**

SPS_y = the amount payable in respect of Strategic Partnering Services in the relevant Contract Year calculated in accordance with **paragraph** 1.7 of this **Schedule 3**

ER_y = baseline electricity revenues in the relevant Contract Year calculated in accordance with **paragraph** 1.8 of this **Schedule 3**

1.2 **New Waste Treatment Facility**

From the day after the NWTF Planned Completion Date, payment for NWTF in respect of each full Contract Year ($NWTF_y$) shall comprise a fixed payment (in respect of fixed costs) and a tonnage-related payment (in respect of variable costs) and shall be calculated as follows:

$$\mathbf{NWTF_y = \{[(NWTFFPI \times IX1_y) + NWTFFPNI]\} + [(NWTFCap_y \times NWTFR \times RPIXC_y)]}$$

Where:

$NWTF_y$ = the payment in respect of NWTF in the relevant Contract Year

NWTFFPI = the fixed payment subject to indexation in respect of NWTF, being £9,325,465 in each Contract Year

$IX1_y$ = the Indexation Factor for the relevant Contract Year y calculated in accordance with paragraph **6.1** of this **Schedule 3**

NWTFFPNI = the fixed payment not subject to indexation in respect of NWTF, being £13,228,500.00 in each Contract Year

$NWTFCap_y$ = the tonnage capacity of NWTF being 190,731

NWTFR = the tonnage rate for the treatment of Contract Waste at NWTF being £2.66 per Tonne

$RPIXC_y$ = the Retail Prices Indexation Factor Cumulative for the relevant Contract Year calculated in accordance with

paragraph 6.3 of this **Schedule 3**

1.3 **HWRCs and Contract Transfer Stations**

Payment for management of HWRCs and Contract Transfer Stations (including the associated Composting and haulage) in each Contract Year following the Initial Services Commencement Date (HWRCy) shall comprise fixed payments and Tonnage-related payments and shall be calculated as follows:

$$\mathbf{HWRC_y = \{[HWRCFP_y + (HWT_y \times HWR_y) + (HWC_y \times HWCR_y) + TSFP_y + ((TST_y - TSTIS_y) \times TSR_y)] \times IX2_y + [(TSTIS_y \times TSRIS_y) \times RPIXC_y]\}}$$

Where:

$HWRCFP_y$ = the total fixed payments in respect of HWRCs in the relevant Contract Year, calculated in accordance with **paragraph** 1.3.1 of this **Schedule 3**

HWT_y = the total Tonnage of Household Waste deposited by members of the public at HWRCs in the relevant Contract Year excluding Rubble, Specified Hazardous Waste and Clinical Waste

HWR_y = the Tonnage rate for HWRCs being £18.88 per Tonne

HWC_y = the total Tonnage of Compostable Waste deposited by members of the public at HWRCs in the relevant Contract Year which is then Composted

$HWCR_y$ = the extra-over Tonnage rate for HWRC Compostable Waste being £47.58 per Tonne

$TSFP_y$ = the total fixed payments in respect of certain Contract Transfer Stations in the relevant Contract Year, calculated in accordance with **paragraph** 1.3.2 of this **Schedule 3**

TST_y = the total Tonnage of Contract Waste delivered to Contract Transfer Stations by or on behalf of WCAs in the relevant Contract Year, excluding any Contract Waste delivered to the Derby Transfer Station from the day after the NWTF Planned Completion Date

TSR_y = the Tonnage rate for Contract Transfer Stations being £13.38 per Tonne

$TSTIS_y$ = the total Tonnage of Contract Waste delivered to any Contract Transfer Stations which satisfy the requirements of paragraph 4.4.1.3 or paragraph 4.4.1.6 of Schedule 1 by or on behalf of WCAs in the relevant Contract Year up to the NWTF Planned Completion Date after which it will be zero

$TSRIS_y$ = the reduced initial services Tonnage rate being £8.00 per Tonne

$IX2y$ = the Indexation Factor for the relevant Contract Year y calculated in accordance with **paragraph** 6.2 of this **Schedule 3**

$RPIXC_y$ = the Retail Prices Indexation Factor Cumulative for the relevant Contract Year calculated in accordance with paragraph 6.3 of this Schedule 3

1.3.1 **HWRC Fixed Payment**

The total fixed payment for HWRCs in respect of each full Contract Year following the Initial Services Commencement Date ($HWRCFP_y$) shall be the aggregate of the fixed payments for each HWRC and shall be calculated as follows:

$$\mathbf{HWRCFP_y = HAsh_y + HBol_y + HChes_y + HGlos_y + HIlk_y + HLos_y + HNor_y + HRay_y + HBret_y}$$

Where:

$HAsh_y$ = the fixed payment in respect of the HWRC at Ashbourne in the relevant Contract Year being £209,685, subject to Benchmarking pursuant to **clause 35.3** (Benchmarking)

$HBol_y$ = the fixed payment in respect of the HWRC at Bolsover in the relevant Contract Year being £192,412, subject to Benchmarking pursuant to **clause 35.3** (Benchmarking)

$HChes_y$ = the fixed payment in respect of the HWRC at Stonegravels (Chesterfield) in the relevant Contract Year being £196,659, subject to Benchmarking pursuant to **clause 35.3** (Benchmarking)

$HGlos_y$ = the fixed payment in respect of the HWRC at Glossop in the relevant Contract Year being £190,578, subject to Benchmarking pursuant to **clause 35.3** (Benchmarking)

$HIlk_y$ = the fixed payment in respect of the HWRC at Ilkeston in the relevant Contract Year being £178,889, subject to Benchmarking pursuant to **clause 35.3** (Benchmarking)

$HLos_y$ = the fixed payment in respect of the HWRC at Loscoe in the relevant Contract Year being £194,519, subject to Benchmarking pursuant to **clause 35.3** (Benchmarking)

$HNor_y$ = the fixed payment in respect of the HWRC at Northwood in the relevant Contract Year being £190,206, subject to Benchmarking pursuant to **clause 35.3** (Benchmarking)

$HRay_y$ = the fixed payment in respect of the HWRC at Raynesway in the relevant Contract Year being £253,692 subject to Benchmarking pursuant to **clause 35.3** (Benchmarking)

$HBret_y$ = the fixed payment in respect of the HWRC at Bretby in the relevant Contract Year being £193,736, subject to Benchmarking pursuant to **clause 35.3** (Benchmarking)

1.3.2 **Contract Transfer Station Fixed Payment**

The total fixed payment for Contract Transfer Stations in respect of each full Contract Year following the Initial Services Commencement Date ($TSFP_y$) shall be the aggregate of the fixed payments for those Contract Transfer Stations listed below and shall be calculated as follows:

$$\mathbf{TSFP_y = TClover_y + TGlos_y + TDer_y}$$

Where:

$TClover_y$ = the fixed payment in respect of the Clover Nook Transfer Station in the relevant Contract Year being £408,243

$TGlos_y$ = the fixed payment in respect of the Glossop Transfer Station in the relevant Contract Year being £408,243

$TDer_y$ = the fixed payment in respect of the Derby Interim Transfer Station in the relevant Contract Year being £1,121,012 up to and including the Contract Year ending on 31 March 2015 after which it shall be zero.

1.4 **Landfill**

Payment for Landfill (which, for the avoidance of doubt, shall include Diversion from Landfill contemplated in this **paragraph 1.4**) shall comprise a performance-related Tonnage payment (LFy), intended to cover Landfill costs and Landfill Tax for achieving the level of performance in accordance with the Contract Targets, and shall be calculated at all times during the Contract Period as set out in this **paragraph 1.4** as follows:

$$\mathbf{LF_y = [(CW_y - CDT_y - Rub_y - HCWT_y) \times (LFR_y + LFT_y)] - LDS_y}$$

Where:

LF_y = the payment for Landfill in the relevant Contract Year commensurate with the Contractor performing the Services in accordance with the Contract Targets

CW_y = the total Tonnage of Contract Waste Handled by or on behalf of the Contractor in the relevant Contract Year

CDT_y = the Contract Diversion Tonnage in the relevant Contract Year calculated in accordance with **paragraph** 1.4.1 of this **Schedule 3**

Rub_y = the total Tonnage of Rubble segregated from Household Waste at HWRCs by the Contractor in the relevant Contract Year

$HCWT_y$ = the total Tonnage of Specified Hazardous Waste and/or Clinical Waste delivered by users to HWRCs or delivered to Delivery Points by or on behalf of WCAs in the relevant Contract Year

LFR_y = the Tonnage rate for Landfill calculated in accordance with **paragraph 1.4.3** of this **Schedule 3**

LFT_y = the prevailing rate of Landfill Tax per Tonne for the type of Waste being Landfilled

LDS_y = the Landfill diversion saving in respect of each Contract Year up to and including the Contract Year commencing on 1 April 2017, calculated in accordance with **paragraph 1.4.4** of this **Schedule 3**

1.4.1 **Contract Diversion Tonnage**

The Contract Diversion Tonnage in each Contract Year following the Initial Services Commencement Date shall be calculated as follows:

$$\mathbf{CDT_y = HWRC_{ert} + NWTF_{dtt}}$$

Where:

$HWRC_{ert}$ = the HWRC Enhanced Recycling Tonnage Target in the relevant Contract Year as calculated in accordance with **paragraph 1.4.2** of this **Schedule 3**

$NWTF_{dtt}$ = the NWTF Diversion Tonnage Target in the relevant Contract Year as calculated in accordance with **paragraph 5.1.1** of **Schedule 1** (Specification)

1.4.2 **HWRC Enhanced Recycling Tonnage Target**

The HWRC Enhanced Recycling Tonnage Target shall be calculated as follows:

$$\mathbf{HWRC_{ert} = (HWT_y \times \{HWRC_{rat} + HWRC_{add}\})}$$

Where:

HWT_y = the total Tonnage of Household Waste deposited by members of the public at HWRCs in the relevant Contract Year, excluding Rubble, Specified Hazardous Waste and Clinical Waste

$HWRC_{rat}$ = the HWRC Re-Use, Recycling and Composting Target in the relevant Contract Year as set out in paragraph 6.2 of the Specification

$HWRC_{add}$ = the HWRC additional diversion target being:

(a) from the Initial Services Commencement Date up to and including the Contract Year ending on 31 March 2015, zero; and

(b) for each Contract Year commencing on 1 April 2015 up to the earlier of the Termination Date or the Expiry Date or the Extended Expiry Date (as the case may be), 7%

1.4.3 **Tonnage Rate for Landfill**

The Tonnage rate for Landfill shall be calculated as follows:

$$\mathbf{LFR_y = LFGF \times RPIXC_y}$$

Where:

LFGF = the Landfill Gate Fee being:

(a) £18.66 from the Initial Services Commencement Date to 31st March 2015;

£21.19 from 1st April 2015 to 31st March 2016;

£21.05 from 1st April 2016 to 31st March 2017;

£20.91 from 1st April 2017 to 31st March 2018;

£20.77 from 1st April 2018 to 31st March 2019; and

£20.64 from 1st April 2019 to 31st March 2020

(b) from the 1st April 2020 up to the earlier of the Termination Date or the Expiry Date or the Extended Expiry Date (as the case may be) the Deflated Market Tested Landfill Rate determined adjusted and deflated in accordance with **paragraph 6.6** of this

RPIXCy = the Retail Prices Indexation Factor Cumulative for the relevant Contract Year calculated in accordance with **paragraph** 6.3 of this **Schedule 3**

1.4.4 **Landfill Diversion Saving**

Up to and including the Contract Year commencing on 1st April 2017, the amount which would otherwise be payable by the Councils for Landfill shall be reduced by an amount equal to LDS_y, as set out in this **paragraph 1.4.4**.

$$\mathbf{LDS_y = (GLDS_y \times RPIXC_y) - ED_y}$$

Where:

$GLDS_y$ = (i) in respect of the Contract Year commencing on 1 April 2015, an amount equal to the lower of:

(a) £854,759; and

(b) £6.11 x (the tonnage of NWTF Residual Waste arising in the relevant Contract Year less 50,000 tonnes);

(ii) in respect of the Contract Year commencing on 1 April 2016, an amount equal to the lower of:

(a) £1,664,574; and

(b) £23.47 x (the tonnage of NWTF Residual Waste arising in the relevant Contract Year less 50,000 tonnes); and

(iii) in respect of the Contract Year commencing on 1 April 2017, an amount equal to the lower of:

(a) £1,620,812; and

(b) £23.47 x (the tonnage of NWTF Residual Waste arising in the Contract Year commencing on 1 April 2016 less 50,000 tonnes) less the value of GLDSy for the Contract Year commencing on 1 April 2016; and

(iv) in all other Contract Years, zero

$RPIXC_y$ = the Retail Prices Indexation Factor Cumulative for the relevant Contract Year calculated in accordance with **paragraph 6.3** of this **Schedule 3**

ED_y = (i) in respect of the Contract Years commencing on 1 April 2011, 1 April 2012, 1 April 2013 and 1 April 2014 only, the Contractor's share of any additional costs or savings associated with Extra Diversion in the relevant Contract Year where:

(a) if the aggregate costs incurred for the purpose of Extra Diversion (including haulage) are greater than those Landfill and haulage costs which would have been incurred in the relevant Contract Year had the Extra Diversion not taken place (i.e. if ED_y is positive) and the Councils have agreed to the relevant Extra Diversion pursuant to **clause 25.9**:

$$\mathbf{ED_y = ACED_y - [(LFR_y + LFT_y) \times EDT_y] + ACEDH_y}$$

(b) if the aggregate costs incurred for the purpose of Extra Diversion (including haulage) are less than those Landfill and haulage costs which would have been incurred in the relevant Contract Year had the Extra Diversion not taken place (i.e. if ED_y is negative):

$$\mathbf{ED_y = 50\% \times \{(ACED_y + ACEDH_y) - [(LFR_y + LFT_y) \times EDT_y)]\}}$$

Where:

ACEDy = the actual costs (excluding haulage costs) incurred by the Contractor in the relevant Contract Year for the purpose of any Extra Diversion in accordance with **clause** 25.9 (Guaranteed Diversion and Extra Diversion) as set out in the Rebate Report required by **Schedule** 4 (Reporting)

ACEDHy = haulage costs, additional to those which would have been incurred by the Contractor in the absence of the relevant Extra Diversion, incurred for the purpose of any Extra Diversion in accordance with **clause 25.9** (Guaranteed Diversion and Extra Diversion) as set out in the Rebate Report required by **Schedule 4** (Reporting)

EDTy = the tonnage of Contract Waste which is Extra Diversion in accordance with **clause 25.9.2** (Guaranteed Diversion and Extra Diversion) as set out in the Rebate Report required by **Schedule 4** (Reporting)

LFRy = the Tonnage rate for Landfill calculated in accordance with **paragraph 1.4.3** of this **Schedule 3**

LFRy = the prevailing rate of Landfill Tax per Tonne

(ii) in all other Contract Years, zero.

1.5 **National Non-Domestic Rates**

1.5.1 In respect of each Contract Year following the Initial Services Commencement Date, where the Contractor (and/or its subcontractors) is liable for and has paid NNDR in respect of the HWRCs, Project Transfer Stations and the New Waste Treatment Facility, $NNDR_y$ shall equal the amount properly paid by the Contractor (and/or its subcontractors) in respect of NNDR in the relevant Contract Year.

1.5.2 If directed by the Councils, the Contractor shall appeal the quantum of NNDR. All costs reasonably incurred by the Contractor in pursuing such an appeal shall be reimbursed at cost by the Councils, provided that the Contractor's invoice relating to the same is supported by satisfactory documentary evidence that such costs have been incurred and properly calculated.

1.6 **Hazardous Waste and Clinical Waste**

1.6.1 In respect of each Contract Year, where the Contractor is required to dispose of Specified Hazardous Waste and/or Clinical Waste accepted at HWRCs or delivered by or on behalf of WCAs to Delivery Points, except where such Waste is mixed with other Waste such that it is visually indistinguishable, payment in respect of the disposal of Specified Hazardous Waste and Clinical Waste (HCW_y) shall equal the sum of all Demonstrably Reasonable and Proper Costs (excluding VAT but including Landfill Tax (if applicable)) invoiced to the Contractor in the relevant Contract Year by third parties for transporting, Recycling, treating and/or disposing of the relevant Specified Hazardous Waste and/or Clinical Waste.

1.6.2 For the purposes of this **paragraph** 1.6, costs incurred by the Contractor shall only be Demonstrably Reasonable and Proper Costs where:

1.6.2.1 they represent a reasonable market price (in the relevant circumstances) for the services provided; and

1.6.2.2 the Contractor's invoice relating to such Demonstrably Reasonable and Proper Costs is supported by satisfactory documentary evidence (including details of the total Tonnage of Specified Hazardous Waste and Clinical Waste), showing that such costs have been incurred and properly calculated.

1.6.3 No payment shall be made by the Councils in respect of Specified Hazardous Waste and/or Clinical Waste other than in respect of Demonstrably Reasonable and Proper Costs.

1.7 **Strategic Partnering Services**

1.7.1 **Principal Formula**

The payments made to the Contractor for delivering Strategic Partnering Services (including Waste Minimisation and Education Services) in respect of each Contract Year y following the Initial Services Commencement Date (SPSy) shall be calculated using the following formula:

$$\mathbf{SPS_y = (WMESP_y \times IX1_y) + IF_y}$$

Where:

SPS_y = payments for Strategic Partnering Services in the relevant Contract Year.

$WMESP_y$ = the annual Waste Minimisation and Education Services Payment being £44,846.

IF_y = the aggregate of amounts payable in respect of the Initiatives Fund pursuant to **paragraph** 2.8 of this **Schedule 3** (Payment Mechanism).

$IX1_y$ = the Indexation Factor for the relevant Contract Year y calculated in accordance with **paragraph** 6.1 of this **Schedule 3**.

1.8 **Electricity Revenues**

From the day after the NWTF Planned Completion Date a reduction in the Unitary Charge associated with energy revenues (ERy) shall be calculated as follows:

$$\mathbf{ER_y = \Sigma\, ER_t}$$

Where:

$\Sigma\, ER_t$ = The aggregate of baseline electricity revenues deducted during the Contract Year through the Monthly Payment calculated pursuant to **paragraph** 2.6 of this **Schedule 3**.

2. **MONTHLY PAYMENT**

The Monthly Payment represents a payment on account to the Contractor in respect of each Payment Period, payable on the last Business Day of that Payment Period, which shall be subject to the reconciliation annually in accordance with **paragraph 3** below of this **Schedule 3.** To the extent that it becomes apparent that the tonnage forecasts used to calculate the Monthly Payment in respect of any Contract Year are or are likely to be at a material variance to the actual tonnages for the relevant element of the Monthly Payment, the Parties shall (acting reasonably) agree whatever changes may be necessary to the tonnage forecasts in order to minimise such variance and the

Monthly Payment shall be recalculated accordingly (subject to reconciliation annually in accordance with paragraph 3 below of this Schedule 3). Such recalculation shall be subject to agreement by the Operating Contractor, whose agreement the Contractor shall procure is not unreasonably withheld or delayed.

2.1 **Principal Formula**

The Monthly Payment (MPt) for each Payment Period (except for the third Payment Period in each Contract Year other than the first Contract Year) shall be calculated using the following formula:

$$\mathbf{MP_t = NWTF_t + HWRC_t + LF_t + NNDR_t - ER_t + HCW_t + SPS_t - MA_{t-1}}$$

The Monthly Payment (MPt) for the third Payment Period in each Contract Year shall be calculated using the following formula:

$$\mathbf{MP_t = NWTF_t + HWRC_t + LF_t + NNDR_t - ER_t + HCW_t + SPS_t - MA_{t-1} + ARA_{y-1}}$$

Where in each case:

MP_t = the Monthly Payment payable for the relevant Payment Period

$NWTF_t$ = the amount payable in respect of NWTF in the relevant Payment Period in accordance with **paragraph** 2.2

$HWRC_t$ = The amount payable in respect of HWRC Services in the relevant Payment Period in accordance with **paragraph** 2.3 of this **Schedule 3**

LF_t = The amount payable in respect of Landfill in the relevant Payment Period in accordance with **paragraph** 2.4 of this **Schedule 3**

$NNDR_t$ = the reimbursement to the Contractor of any NNDR properly payable in respect of the Facilities referred to in **paragraph** 2.5 of this **Schedule 3**

ER_t = the amount payable in respect of electricity revenues calculated in accordance with **paragraph** 2.6 of this **Schedule 3**

HCW_t = the amount payable in respect of Specified Hazardous Waste and/or Clinical Waste Handled by the Contractor in the relevant Contract Year calculated in accordance with **paragraph** 2.7 of this **Schedule 3**

SPS_t = the amount payable in respect of Strategic Partnering Services in the relevant Payment Period in accordance with **paragraph** 2.8 of this **Schedule 3**

MA_{t-1} = subject to **paragraph 4.1A** of this **Schedule 3**, Monthly Adjustments in respect of the preceding Payment Period, calculated in accordance with **paragraph** 4 of this **Schedule 3**

ARA_{y-1} = the Annual Reconciliation Amount for the preceding Contract Year calculated in accordance with **paragraph** 3.1 of this **Schedule 3**

2.2 **New Waste Treatment Facility**

From the day after the NWTF Planned Completion Date, payment for each full Payment Period shall be calculated as follows:

$$\mathbf{NWTF_t = NWTF_y \div 12}$$

Where:

$NWTF_t$ = The payment in respect of NWTF in the relevant Payment Period

$NWTF_y$ = The payment in respect of NWTF in the relevant Contract Year calculated in accordance with **paragraph** 1.2 of this **Schedule 3**

2.3 **HWRCs and Contract Transfer Stations**

Payment for management of HWRCs and Contract Transfer Stations (including the associated Composting and haulage) in each full Payment Period (HWRCt) shall be calculated as follows:

$$\mathbf{HWRC_t = \{[(HWRCFP_y + (HWTF_y \times HWR_y) + (HWCF_y \times HWCR_y) + TSFPy + ((TSTF_y - TSTFIS_y) \times TSR_y)) \times IX2y + (TSTFIS_y \times TSRIS_y) \times RPIXC_y] \div 12\}}$$

Where:

$HWRCFP_y$ = the total fixed payments in respect of HWRCs in the relevant Contract Year, calculated in accordance with **paragraph** 1.3.1 of this **Schedule 3**

$HWTF_y$ = the total Tonnage of Household Waste forecast to be deposited by members of the public at HWRCs in the relevant Contract Year (less Rubble, Specified Hazardous Waste and Clinical Waste), calculated in accordance with **paragraph** 2.3.1 of this **Schedule 3**

HWR_y = the Tonnage rate for HWRCs being £18.88 per Tonne

$HWCF_y$ = the total Tonnage of Compostable Waste forecast to be deposited by members of the public at HWRCs and be Composted in the relevant Contract Year calculated in accordance with **paragraph** 2.3.2 of this **Schedule 3**

$HWCR_y$ = the extra-over Tonnage rate for HWRC Compostable Waste being £47.58 per Tonne

$TSFP_y$ = the total fixed payments in respect of certain Contract Transfer Stations in the relevant Contract Year, calculated in accordance with **paragraph** 1.3.2 of this **Schedule 3**

$TSTF_y$ the total Tonnage of Contract Waste forecast to be delivered to Contract Transfer Stations by or on behalf of WCAs in the relevant Contract Year calculated in accordance with **paragraph** 2.3.3 of this **Schedule 3**

TSR_y = the Tonnage rate for Contract Transfer Stations being £13.38 per Tonne

$TSTFIS_y$ = the total Tonnage of Contract Waste forecast to be delivered to any Contract Transfer Stations which satisfy the requirements of paragraph 4.4.1.3 or paragraph 4.4.1.6 of Schedule 1 by or on behalf of WCAs in the relevant Contract Year as set out in the Base Case up to the NWTF Planned Completion Date or as otherwise agreed between the Parties acting reasonably

$TSRIS_y$ = the reduced initial services Tonnage rate being £8.00 per Tonne

$IX2_y$ = the Indexation Factor for the relevant Contract Year y calculated in accordance with **paragraph** 6.2 of this **Schedule 3**

$RPIXC_y$ = the Retail Prices Indexation Factor Cumulative for the relevant Contract Year calculated in accordance with paragraph 6.3 of this Schedule 3

2.3.1 **Forecasting the Tonnage of Household Waste delivered by users to HWRCs**

2.3.1.1 In the first three Contract Years commencing on the Initial Services Commencement Date, the total Tonnage of Household Waste forecast to be deposited by members of the public at HWRCs in the relevant Contract Year (less Rubble, Specified Hazardous Waste and Clinical Waste) shall be as set out in the Base Case.

2.3.1.2 In subsequent Contract Years, the total Tonnage of Household Waste forecast to be deposited by members of the public at HWRCs in the relevant Contract Year (less Rubble, Specified Hazardous Waste and Clinical Waste) shall be calculated as follows:

$$\mathbf{HWTF_y = HWTC_y \times (CWB_y \div CWB_{y-1})}$$

Where:

$HWTF_y$ = the total Tonnage of Household Waste forecast to be deposited by members of the public at HWRCs in the relevant Contract Year (less Rubble, Specified Hazardous Waste and Clinical Waste)

$HWTC_y$ = the total Tonnage of Household Waste (less Rubble, Specified Hazardous Waste

and Clinical Waste) actually deposited by members of the public at HWRCs during the full calendar year (between 1st January and 31st December) immediately preceding the relevant Contract Year

CWB_y = the total Tonnage of Contract Waste forecast to be arising in the relevant Contract Year in the Base Case

CWB_{y-1} = the total Tonnage of Contract Waste forecast to be arising in the preceding Contract Year in the Base Case

2.3.2 **Forecasting the Tonnage of Compostable Waste arising at HWRCs**

2.3.2.1 In the first three Contract Years commencing on the Initial Services Commencement Date, the total Tonnage of Compostable Waste forecast to arise at HWRCs in the relevant Contract Year and be Composted shall be as set out in the Base Case.

2.3.2.2 In subsequent Contract Years, the total Tonnage of Compostable Waste forecast to arise at HWRCs and be Composted in the relevant Contract Year shall be calculated as follows:

$$\mathbf{HWCF_y = HWCC_y \times (CWB_y \div CWB_{y-1})}$$

Where:

$HWCF_y$ = the total Tonnage of Compostable Waste forecast to be deposited by members of the public at HWRCs and be Composted in the relevant Contract Year

$HWCC_y$ = the total Tonnage of Compostable Waste actually arising at HWRCs and which was Composted during the full calendar year (between 1st January and 31st December) immediately preceding the relevant Contract Year

CWB_y = the total Tonnage of Contract Waste forecast to be arising in the relevant Contract Year in the Base Case

CWB_{y-1} = the total Tonnage of Contract Waste forecast to be arising in the preceding Contract Year in the Base Case

2.3.3 **Forecasting the Tonnage of Contract Waste to be delivered to Contract Transfer Stations**

2.3.3.1 In the first three Contract Years commencing on the Initial Services Commencement Date, the total Tonnage of Contract Waste forecast to be delivered to Contract Transfer Stations by or on behalf of WCAs shall be as set out in the Base Case.

2.3.3.2 In subsequent Contract Years, the total Tonnage of Contract Waste forecast to be delivered to Contract Transfer Stations by or on behalf of WCAs in the relevant Contract Year shall be calculated as follows:

$$\mathbf{TSTF_y = TSTC_y \times (CWB_y \div CWB_{y-1})}$$

Where:

$TSTF_y$ = the total Tonnage of Contract Waste forecast to be delivered to Contract Transfer Stations by or on behalf of WCAs in the relevant Contract Year

$TSTC_y$ = the total Tonnage of Contract Waste actually delivered to Contract Transfer Stations by or on behalf of WCAs during the full calendar year (between 1st January and 31st December) immediately preceding the relevant Contract Year

CWB_y = the total Tonnage of Contract Waste forecast to be arising in the relevant Contract Year in the Base Case

CWB_{y-1} = the total Tonnage of Contract Waste forecast to be arising in the preceding Contract Year in the Base Case

2.4 Landfill

Payment for Landfill (LFt) in each Payment Period shall be calculated as follows:

$$\mathbf{LF_t = \{[CWF_y - [(HWTF_y \times (HWRC_{rat} + HWRC_{add})) + RubF_y + HCWTF_y + NWTF_{dtt}] \div 12] \times (LFR_y + LFT_y)\} - (GLDS_y \times RPIXC_y / 12)}$$

Where:

CWF_y = the total Tonnage of Contract Waste forecast to be Handled by or on behalf of the Contractor in the relevant Contract Year, calculated in accordance with **paragraph** 2.4.1 of this **Schedule 3**

$HWTF_y$ = the total Tonnage of Household Waste forecast to be deposited by members of the public at HWRCs in the relevant Contract Year (less Rubble, Specified Hazardous Waste and Clinical Waste), calculated in accordance with

paragraph 2.3.1 of this **Schedule 3**

$RubF_y$ = the total Tonnage of Rubble forecast to be segregated from Household Waste at HWRCs by the Contractor in the relevant Contract Year, calculated in accordance with **paragraph** 2.4.2 of this **Schedule 3**

HWRCrat = the HWRC Re-Use, Recycling and Composting Target (expressed as a percentage) in the relevant Contract Year as set out in paragraph 6.2 of the Specification

$HWRC_{add}$ = the HWRC additional diversion target being:

up to and including the Contract Year ending on 31 March 2015, zero

from the Contract Year commencing on 1 April 2015, 7%

NWTFdtt = the NWTF Diversion Tonnage Target in the relevant Contract Year as calculated in accordance with **paragraph 5.1.1** of **Schedule 1** (Specification)

$HCWTF_y$ = the total Tonnage of Specified Hazardous Waste and/or Clinical Waste forecast to arise at HWRCs or delivered by or on behalf of WCAs in the relevant Contract Year calculated in accordance with **paragraph** 2.4.3 of this **Schedule 3**

LFR_y = the Tonnage rate for Landfill in the relevant Payment Period calculated in accordance with **paragraph 1.4.3** or of this **Schedule 3**

LFT_y = the prevailing rate of Landfill Tax per Tonne in the relevant Payment Period for the type of Waste being Landfilled

$GLDS_y$ = the relevant amount set out in **paragraph 1.4.4** of this **Schedule 3**

$RPIXC_y$ = the Retail Prices Indexation Factor Cumulative for the relevant Contract Year calculated in accordance with paragraph 6.3 of this Schedule 3

2.4.1 **Forecasting the Tonnage of Contract Waste**

2.4.1.1 In the first three Contract Years commencing on the Initial Services Commencement Date, the total Tonnage of Contract Waste forecast to be Handled by or on behalf of the Contractor shall be as set out in the Base Case.

2.4.1.2 In subsequent Contract Years, the total Tonnage of Contract Waste forecast to be Handled by or on behalf of the Contractor shall be calculated as follows:

$$\mathbf{CWF_y = CWC_y \times (CWBy \div CWB_{y-1})}$$

Where:

CWF_y = the total Tonnage of Contract Waste forecast to be Handled by or on behalf of the Contractor in the relevant Contract Year

CWC_y = the total Tonnage of Contract Waste actually Handled by or on behalf of the Contractor during the full calendar year (between 1st January and 31st December) immediately preceding the relevant Contract Year

CWB_y = the total Tonnage of Contract Waste forecast to be arising in the relevant Contract Year in the Base Case

CWB_{y-1} = the total Tonnage of Contract Waste forecast to be arising in the preceding Contract Year in the Base Case

2.4.2 **Forecasting the Tonnage of Rubble arising at HWRCs**

2.4.2.1 In the first three Contract Years commencing on the Initial Services Commencement Date, the total Tonnage of Rubble forecast to be segregated from Household Waste at HWRCs by the Contractor in the relevant Contract Year shall be as set out in the Base Case.

2.4.2.2 In subsequent Contract Years, the total Tonnage of Rubble forecast to be segregated from Household Waste at HWRCs by the Contractor in the relevant Contract Year shall be calculated as follows:

$$\mathbf{RubF_y = RubT_y \times (CWB_y \div CWB_{y-1})}$$

Where:

$RubF_y$ = the total Tonnage of Rubble forecast to be Handled by or on behalf of the Contractor in the relevant Contract Year

$RubT_y$ = the total Tonnage of Rubble actually Handled by or on behalf of the Contractor during the full calendar year (between 1st January and 31st December) immediately preceding the relevant Contract Year

CWB_y = the total Tonnage of Contract Waste forecast to be arising in the relevant Contract Year in the Base Case

CWB_{y-1} = the total Tonnage of Contract Waste forecast to be arising in the preceding

Contract Year in the Base Case

2.4.3 **Forecasting the Tonnage of Hazardous Waste and Clinical Waste**

2.4.3.1 In the first three Contract Years commencing on the Initial Services Commencement Date, the total Tonnage of Specified Hazardous Waste and Clinical Waste forecast to be Handled by the Contractor shall be as set out in the Base Case.

2.4.3.2 In subsequent Contract Years, the total Tonnage of Specified Hazardous Waste and Clinical Waste forecast to be Handled by the Contractor in the relevant Contract Year shall be calculated as follows:

$$\mathbf{HCWTF_y = HCWT_y \times (CWB_y \div CWB_{y-1})}$$

Where:

$HCWTF_y$ = the total Tonnage of Specified Hazardous Waste and Clinical Waste forecast to be Handled by the Contractor in the relevant Contract Year

$HCWT_y$ = the total Tonnage of Specified Hazardous Waste and Clinical Waste actually Handled by the Contractor during the full calendar year (between 1st January and 31st December) immediately preceding the relevant Contract Year

CWB_y = the total Tonnage of Contract Waste forecast to be arising in the relevant Contract Year in the Base Case

CWB_{y-1} = the total Tonnage of Contract Waste forecast to be arising in the preceding Contract Year in the Base Case

2.5 **National Non-Domestic Rates**

In respect of each Payment Period (t), payment to the Contractor in respect of National Non-Domestic Rates (NNDRt) in respect of the Facilities identified in **paragraph 1.5** shall equal the amount properly paid by the Contractor (and/or its subcontractors) in respect of NNDR in the preceding Payment Period (t-1).

2.6 **Electricity Revenues**

The payment for electricity revenues in each Payment Period (ERt) (which shall be applied through the Monthly Payment from the day after the NWTF Planned Completion Date) shall be calculated as follows:

$$ER_t = (ELECRev / 12) \times IXElec$$

Where:

ER_t = Payment for electricity revenues in each Payment Period

ELECRev = The baseline electricity revenue to be produced by NWTF calculated as follows:

(a) from the Initial Services Commencement Date up to and including the NWTF Planned Completion Date, being £0.00;

(b) from the day after the NWTF Planned Completion Date up to and including the day which is 12 months following the NWTF Planned Completion Date, being £3,547,896 per Payment Period;

(c) from the day after the day which is 12 months following the NWTF Planned Completion Date up to and including the day which is 24 months following the NWTF Planned Completion Date, being £ 3,645,098 per Payment Period;

(d) from the day after the day which is 24 months following the NWTF Planned Completion Date up to and including the day which is 36 months following the NWTF Planned Completion Date, being £3,725,290 per Payment Period ; and

(e) from the day after the day which is 36 months following the NWTF Planned Completion Date up to and including the Expiry Date being £3,790,902 per Payment Period.

IXElec = the electricity indexation factor for the preceding Payment Period calculated in accordance with **paragraph** 6.5 of this **Schedule 3**

2.7 **Hazardous Waste and Clinical Waste (HCW_t)**

Payment for Handling Specified Hazardous Waste and Clinical Waste (HCWt) in each Payment Period shall be calculated as follows:

$$HCW_t = HCWPF_y \div 12$$

Where:

HCW_t = payment for Handling Specified Hazardous Waste and Clinical Waste in the relevant Payment Period

$HCWPF_y$ = the Payment for Specified Hazardous Waste and Clinical Waste forecast to be Handled by the Contractor in the relevant

Contract Year being:

(a) £80,000 (indexed in accordance with **clause 2.1.11**) in the first three Contract Years commencing on the Initial Services Commencement Date; and

(b) in subsequent Contract Years, the Payment in respect of Specified Hazardous Waste and Clinical Waste actually Handled by the Contractor during the full calendar year (between 1st January and 31 December) immediately preceding the relevant Contract Year

2.8 Strategic Partnering Services

2.8.1 Principal Formula

The payments made to the Contractor for delivering Strategic Partnering Services (including Waste Minimisation and Education Services) in respect of each Payment Period t (SPSt) shall be calculated using the following formula:

$$\mathbf{SPS_t = (WMESP_y \div 12) + IF_t}$$

Where

SPS_t = payments for Strategic Partnering Services in the relevant Payment Period

$WMESP_y$ = payments for annual Waste Minimisation and Education Services in the relevant Contract Year, calculated in accordance with **paragraph** 1.7 of this **Schedule 3**

IF_t = payments made to the Contractor for implementing and achieving the objectives set out in the Waste Minimisation and Education Plan, being the Initiatives Fund calculated in accordance with **paragraph 8.2** of **Schedule** 1 (Specification)

3. ANNUAL RECONCILIATION AMOUNT

The Annual Reconciliation Amount represents an amount added to (where the Annual Reconciliation amount is positive), or deducted from (where the Annual Reconciliation Amount is negative), the payment otherwise due to the Contractor on the last Business Day of the third Payment Period in each Contract Year (in accordance with **paragraph** 2.1 above), in order to reconcile differences between payments which should have been made to the Contractor during the relevant Contract Year and payments actually made through Monthly Payments during the relevant Contract Year. No interest for late payment shall be due from either Party to the other in respect of any period occurring before such due date for payment.

3.1 Principal Formula

The Annual Reconciliation Amount (ARAy) for each Contract Year shall be calculated using the following formula:

$$\mathbf{ARA_y = UC_y - MA_y - AA_y - MP_y}$$

Where:

ARA_y = the Annual Reconciliation Amount

UC_y = the Unitary Charge payable for the relevant Contract Year calculated in accordance with **paragraph 1** of this **Schedule 3**

AA_y = the Annual Adjustments incurred during the relevant Contract Year, calculated in accordance with **paragraph** 5 of this **Schedule 3**

MA_y = the aggregate of Monthly Adjustments accrued in respect of the relevant Contract Year, calculated in accordance with **paragraph** 4 of this **Schedule 3**

MP_y = the aggregate of Monthly Payments made to the Contractor in respect of the relevant Contract Year, calculated in accordance with **paragraph** 2 of this **Schedule 3**

3.2 **The Final Contract Year**

The Annual Reconciliation Amount for the final Contract Year shall be payable in accordance with **clause 32.12** (Final Reconciliation).

4. **MONTHLY ADJUSTMENTS**

Monthly Adjustments shall comprise Unavailability Deductions in respect of HWRCs and Contract Transfer Stations not being Available in accordance with the requirements of the Specification, calculated in accordance with **paragraph** 4.2 of this **Schedule 3**, Monthly Performance Adjustments in respect of the Services not being delivered in accordance with Key Performance Indicators, calculated in accordance with **paragraph** 4.3 of this **Schedule 3**, and Tipping Away Payments in respect of costs incurred by WCAs as a result of diversion of Contract Waste from Primary Delivery Points, calculated in accordance with **paragraph** 4.4 of this **Schedule 3**.

4.1 **Principal Formula**

The Monthly Adjustment (MA_t) applicable in respect of each Payment Period (which shall be applied through the Monthly Payment one Payment Period in arrears and as part of the Annual Reconciliation) shall be calculated using the following formula:

$$\mathbf{MA_t = UD_t + MPD_t + TAP_t + RFD_t}$$

Where:

MAt = the Monthly Adjustment applicable in respect of the relevant Payment Period

UD_t = Unavailability Deductions applicable in respect of the relevant Payment Period, calculated in accordance with **paragraph** 4.2 of

this **Schedule 3**

MPD_t = Monthly Performance Adjustments applicable in respect of the relevant Payment Period, calculated in accordance with **paragraph** 4.3 of this **Schedule 3**

TAP_t = Tipping Away Payments applicable in respect of the relevant Payment Period, calculated in accordance with **paragraph 4.4** of this **Schedule 3**

RFD_t = Reporting Failure Deductions applicable in respect of the relevant Payment Period calculated pursuant to **Schedule 14** (Performance Mechanism)

4.1A **Monthly Adjustments in Excess of the Monthly Payment**

In respect of any Payment Period, the Councils may not make Monthly Adjustments which in aggregate exceed the amount of the Monthly Payment for the relevant Payment Period calculated in accordance with **paragraph** 2.1 (Principal Formula) of this **Schedule 3** but without deductions for Monthly Adjustments (the "Pre-Adjustment Amount"). To the extent that the Monthly Adjustments in respect of any Payment Period do exceed the relevant Pre-Adjustment Amount, the amount of any excess Monthly Adjustments shall be deducted from the Pre-Adjustment Amount in respect of the next following Payment Period, and each subsequent Payment Period until such Monthly Adjustments have all been deducted from amounts due to the Contractor. For the avoidance of doubt, this **paragraph 4.1A** shall not apply to Annual Adjustments.

4.2 **Unavailability Deductions**

Unavailability Deductions in respect of each Payment Period shall be calculated using the following formula:

$$\mathbf{UD_t = [\Sigma\ (HUH_t \times HUR) + \Sigma\ (TSUH_t \times TSUR)] \times IX2_y}$$

Where:

UD_t = Unavailability Deductions applicable in respect of the relevant Payment Period

HUH_t = the number of hours (or part thereof) within the specified HWRC Opening Hours that each HWRC failed to meet the HWRC Availability Criteria in the relevant Payment Period

HUR = the HWRC Unavailability Rate set out in **Table 4.2.1** below for each HWRC subject to Benchmarking

$TSUH_t$ = the number of hours (or part thereof) within the specified Delivery Point Opening Hours that any Primary Delivery Point listed in **Table 4.2.2** failed to meet the Delivery Point Availability Criteria in the relevant Payment Period. For the avoidance of doubt, to the extent that the Contractor has provided an alternative Delivery Point which meets the Delivery Point Availability Criteria, then no failure will have

arisen

TSUR = The Transfer Station Unavailability Rate set out in **Table 4.2.2** below for each Contract Transfer Station

$IX2_y$ = the Indexation Factor for the relevant Contract Year y calculated in accordance with **paragraph** 6.2 of this **Schedule 3**

Table 4.2.1: HWRC Unavailability Rates

Site Name	**Rate per hour £ (HUR)**
Glossop;	55.42
Stonegravels (Chesterfield);	57.19
Loscoe;	56.57
Ilkeston;	52.02
Ashbourne;	60.98
Raynesway	70.09
Bolsover;	55.96
Northwood; and	55.32
Bretby.	56.34

Table 4.2.2: Transfer Station Unavailability Rates

Site Name	**Rate per hour £ (TSUR)**	**Applicable from**	**Applicable to**
Clover Nook Transfer Station	141.08	Initial Services Commencement Date	Expiry Date
Glossop Transfer Station	141.08	Initial Services Commencement Date	Expiry Date
Derby Interim Transfer Station	432.09	Initial Services Commencement Date	31 March 2015
Derby Transfer Station	29.06	the later of the day after the NWTF Planned Completion Date and the day after the actual NWTF Completion Date	Expiry Date

4.3 Monthly Performance Adjustments

Monthly Performance Adjustments in respect of each Payment Period shall be calculated using the following formula:

$$\mathbf{MPD_t = MPP_t \times PPR \times IX1y}$$

MPD_t = Monthly Performance Adjustments applicable in respect of the relevant Payment Period

MPP_t = the number of Monthly Performance Points levied in respect of the relevant Payment Period, determined in accordance with **Schedule 14** (Performance Mechanism)

PPR = the performance point rate being £1.12

$IX1_y$ = the Indexation Factor for the relevant Contract Year y calculated in accordance with **paragraph** 6.1 of this **Schedule 3**

Monthly Performance Deductions shall only be capable of being levied in relation to the Services provided at the NWTF in the period following the Planned NWTF Completion Date.

4.4 Tipping Away Payments

Where a WCA delivers, at the direction of the Contractor, Contract Waste to a Delivery Point which is not a Primary Delivery Point for such WCA, the Contractor shall be liable to a deduction according to the following formula:

$$\mathbf{TAP_t = TAPT_t \times TAPM_t \times TAPR \times IX1_y}$$

TAP_t = Tipping Away Payments applicable in respect of the relevant Payment Period

$TAPT_t$ = the Tonnage of Contract Waste diverted from the Primary Delivery Points in the relevant Payment Period as a result of the relevant Primary Delivery Point being Unavailable and/or as instructed by the Contractor

$TAPM_t$ = the distance in miles from the relevant Primary Delivery Point to the alternative Delivery Point travelling along the most direct adopted highway that provides a safe and legal route from the relevant Primary Delivery Point to the relevant alternative Delivery Point

TAPR = the Tipping Away Payment mileage rate being £1.46 per tonne per mile

$IX1_y$ = the Indexation Factor for the relevant Contract Year y calculated in accordance with **paragraph** 6.1 of this **Schedule 3**

provided always that the Contractor shall not be liable to pay Tipping Away Payments:

4.4.1.1 if a WCA delivers to a Delivery Point which is not a Primary Delivery Point as a result of a WCA having delivered Rejectable Waste, or Contract Waste to that Primary Delivery Point in excess of the maximum capacity of that Primary Delivery Point as set out in the SDPs; and/or

4.4.1.2 in respect of each Primary Delivery Point which is a Landfill Site, for any period of Unavailability in excess of 18 days in aggregate (excluding Sundays and bank holidays) during any Contract Year; and/or

4.4.1.3 when the location of the alternative Delivery Point complies with the location requirement for the relevant Primary Delivery Point as set out in **paragraph 4.4** of **Schedule 1** (Specification) and that alternative Delivery Point is Available at the material time and the Contractor has given reasonable notice to the Councils that the alternative Delivery Point should be used.

5. ANNUAL ADJUSTMENTS

Annual Adjustments shall comprise: Annual Performance Deductions in respect of the Services not being delivered in accordance with Annual KPIs, calculated in accordance with **paragraph** 5.2 of this **Schedule 3**; a Landfill adjustment to reflect variance between the Actual Diversion Tonnage and the Contract Diversion Tonnage and the Councils' share of excess Third Party Income.

5.1 Principal Formula

The Annual Adjustment (AAy) applicable in respect of each Contract Year (which shall be applied as part of the Annual Reconciliation) shall be calculated using the following formula:

$$\mathbf{AA_y = APD_y + TLFA_y + TPI_y}$$

Where:

AAy = the Annual Adjustments incurred during the relevant Contract Year

APDy = Annual Performance Deductions applicable in respect of the relevant Contract Year, calculated in accordance with **paragraph** 5.2 of this **Schedule 3**

TLFAy = the aggregate of:

a) the Landfill Adjustment (LFA_y) calculated in accordance with paragraph 5.3.1 of this Schedule 3; and

b) the Council's share of savings associated with the use of offtakers to Divert Contract Waste from Landfill, over and above the Contract Diversion Target, calculated in accordance with paragraph 5.3.2 of this Schedule 3

TPIy = the Councils' share of Third Party Income in respect of the relevant Contract Year calculated in accordance with **paragraph 5.4** of this

5.2 Annual Performance Deductions

Annual Performance Deductions in respect of each Contract Year shall be calculated using the following formula.

$$\mathbf{APD_y = APP_y \times PPR \times IX1_y}$$

Where:

APD_y = Annual Performance Deductions applicable in respect of the relevant Contract Year

APP_y = the number of Annual Performance Points levied in respect of the relevant Contract Year, determined in accordance with **Schedule 14** (Performance Mechanism)

PPR = the performance point rate being £1.12

IX1y = the Indexation Factor for the relevant Contract Year y calculated in accordance with **paragraph** 6.1 of this **Schedule 3**

5.3 Landfill Adjustment

5.3.1 Diversion from HWRCs and NWTF

This limb of the Landfill Adjustment (LFA_y) provides the Councils with a share of savings where the Actual Diversion Tonnage is greater than the Contract Diversion Tonnage in the relevant Contract Year due to:

a) the Diversion at HWRCs exceeding the HWRC Enhanced Recycling Tonnage Target (defined in paragraph 1.4.2 of this Schedule 3); and/or

b) the Diversion at NWTF exceeding the NWTF Diversion Tonnage Target;

5.3.1.1 From the Initial Services Commencement Date to the NWTF Planned Completion Date:

$$\mathbf{LFA_y = 0}$$

5.3.1.2 From the day after the NWTF Planned Completion Date:

(a) If the Actual Diversion Tonnage is greater than the Contract Diversion Tonnage but less than the Maximum Contract Diversion Tonnage (i.e. MCDTy > ADTy > CDTy)

$$LFA_y = (ADT_y - CDT_y) \times (LFR_y + LFT_y)$$

or

(b) If the Actual Diversion Tonnage is greater than the Maximum Contract Diversion Tonnage (i.e. ADTy > MCDTy)

$$LFA_y = \{(MCDT_y - CDT_y) \times (LFR_y + LFT_y)\} + \{(ADT_y - MCDT_y) \times (LFR_y + LFT_y) \times 50\%\}$$

Where:

LFA_y = the Landfill Adjustment in the relevant Contract Year

CDT_y = the Contract Diversion Tonnage in the relevant Contract Year calculated in accordance with **paragraph 1.4.1** of this **Schedule 3**

$MCDT_y$ = the Maximum Contract Diversion Tonnage being the Contract Diversion Tonnage which would apply in the relevant Contract Year corresponding to an NWTF Diversion Tonnage Target specified at **paragraph 5.1.1.5** of **Schedule 1** (Specification)

ADT_y = the Tonnage of Contract Waste which was actually Diverted by the Contractor in the relevant Contract Year as a result of the operation of the HWRCs and/or the Diversion of NWTF Residual Waste which was treated at the NWTF (excluding any Tonnage of Contract Waste Diverted via delivery to third party offtakers where the cost savings of such Diversion have been shared with the Councils under paragraph 5.3.2)

LFR_y = the tonnage rate for Landfill as if the Waste had been Landfilled calculated in accordance with **paragraph 1.4.3** of this **Schedule 3**;

LFT_y = the prevailing rate of Landfill Tax per Tonne;

provided always that if LFA_y calculated in accordance with the formula above is less than zero, LFA_y shall be deemed to be zero.

To the extent that the effect of the calculations set out in paragraph 5.3.1.2 above is to rebate to the Councils more than 50% of the landfill diversion savings achieved at the HWRCs, the calculated value of LFA_y shall be amended

so as to ensure that only 50% of HWRC landfill diversion savings are rebated to the Councils.

5.3.2 **Diversion via Offtakers**

If, from the NWTF Planned Completion Date, the Contractor Diverts NWTF Residual Waste from Landfill by delivery to third party offtakers (excluding, for the avoidance of doubt, delivery of fly ash and bottom ash to third party offtakers) then to the extent that such Diversion:

a) results in the tonnage of NWTF Residual Waste which is Landfilled being less than the tonnage which would have been Landfilled had the Contractor achieved the Contract Diversion Tonnage in the relevant Contract Year calculated in accordance with paragraph 1.4.1 of this Schedule 3; and

b) results in a cost saving over and above the cost of treating 12,000 Tonnes per annum of RDF tonnage as included in the Base Case at a rate of £52.21 (indexed by the Retail Prices Indexation Factor Cumulative for the relevant Contract Year calculated in accordance with paragraph 6.3 of this Schedule 3) per Tonne compared with the alternative costs had the relevant NWTF Residual Waste been landfilled (taking into account the cost of such Diversion but excluding any recycling revenues, the alternative cost of Landfill set out in paragraph 1.4.3 of this Schedule 3 and associated transfer/haulage costs which accrue or would have accrued in each instance, by reference to rates and prices in this Schedule 3 and costs in the Base Case as appropriate)

the associated cost savings shall be shared 50:50 between the Councils and the Contractor.

5.4 **Third Party Income**

Subject to **clause 25.3** (Third Party Waste), where the Contractor generates Third Party Income in relation to the Services provided under this Contract in excess of that assumed in the Base Case from those activities referred to below, the Councils shall be entitled to a share of the excess income. The Contractor shall calculate the share of such Third Party Income due to the Councils in the relevant Contract Year according to the following formula:

$$\mathbf{TPI_y = [(RRA_y - (RRB_y \times RPIXC_y)) \times 50\%] + [(TSR_y + CTR_y) \times 80\%] + POWER_y \times POWER_{\%}}$$

Where:

TPI_y = the Councils' share of Third Party Income in respect of the Contract Year which shall never be less than zero

RRA_y = the actual nominal revenue from the sale of Recyclable Materials from NWTF generated by the Contractor in the relevant Contract Year

RRB_y = the revenue forecast to be generated by the Contractor from the sale of Recyclable Materials from NWTF in the relevant Contract Year being zero up to and including that in which the NWTF Planned Completion Date occurs and £737,072 per annum thereafter.

TSR_y = Revenue (net of reasonably incurred associated costs) from the receipt of Third Party Waste at Project Transfer Stations and NWTF in the relevant Contract Year (excluding any Third Party Waste accepted by the Contractor to make up a shortfall in accordance with **clause 25.4.1**)

CTR_y = Revenue (net of reasonably incurred associated costs) from carbon trading in the relevant Contract Year

$RPIXC_y$ = the Retail Prices Indexation Factor Cumulative for the relevant Contract Year calculated in accordance with **paragraph** 6.3 of this **Schedule 3**

$POWER_y$ = Revenue from the sale of power generated at the NWTF

$POWER_{\%}$ = The Councils' share of revenue from the sale of power generated at the NWTF up to and including the NWTF Planned Completion Date being 50% up to and including the NWTF Planned Completion Date and zero thereafter

6. INDEXATION

All rates and prices in this Payment Mechanism are at the Price Base Date of 1 April 2011. Indexation where applicable, shall be applied annually from 1 April in each Contract Year as follows:

6.1 Indexation Factor – New Waste Treatment Facility

The Indexation Factor ("IX1y") for the relevant Contract Year shall be calculated as follows:

$$\mathbf{IX1_y = (RPIXC_y \times 77.54\%) + (AWEIC_y \times 22.46\%)}$$

Where:

$RPIXC_y$ = the Retail Prices Indexation Factor Cumulative for the relevant Contract Year calculated in accordance with **paragraph** 6.3 of this **Schedule 3**

$AWEIC_y$ = the Average Weekly Earnings Indexation Factor – Cumulative ("AWEICy") for the relevant Contract Year calculated in accordance with **paragraph** 6.4 of this **Schedule 3**

6.2 Indexation Factor – HWRCs and Contract Transfer Stations

The Indexation Factor ("IX2y") for the relevant Contract Year shall be calculated as follows:

$$IX2_y = (RPIXC_y \times 91.9\%) + (AWEIC_y \times 8.1\%)$$

Where:

$RPIXC_y$ = the Retail Prices Indexation Factor Cumulative for the relevant Contract Year calculated in accordance with **paragraph** 6.3 of this **Schedule 3**

$AWEIC_y$ = the Average Weekly Earnings Indexation Factor – Cumulative ("AWEICy") for the relevant Contract Year calculated in accordance with **paragraph** 6.4 of this **Schedule 3**

6.3 **Retail Prices Indexation – Cumulative**

The Retail Prices Indexation Factor – Cumulative ("RPIXC") for the relevant Contract Year shall be calculated as follows:

$$RPIXC_y = RPIX_{y-1} \div RPIX_0$$

Where:

$RPIXC_y$ = the Retail Prices Indexation Factor Cumulative for the relevant Contract Year

$RPIX_{y-1}$ = the published RPIX for the January immediately preceding the relevant Contract Year; and

$RPIX_0$ = the RPIX published for January 2011 being 228.2

6.4 **Average Weekly Earnings Indexation – Cumulative**

The Average Weekly Earnings Indexation Factor – Cumulative ("AWEIC") for the relevant Contract Year shall be calculated as follows:

$$AWEIC_y = AWEI_{y-1} \div AWEI_0$$

Where:

$AWEIC_y$ = the Average Weekly Earnings Indexation Factor – Cumulative ("AEICy") for the relevant Contract Year

$AWEI_{y-1}$ = the Average Weekly Earnings Index (Whole Economy not seasonally adjusted excluding bonuses and including arrears Reference KA5H) for the January immediately preceding the relevant Contract Year

$AWEI_0$ = the Average Weekly Earnings Index (Whole Economy not seasonally adjusted excluding bonuses and including arrears Reference KA5H) published for January 2011 being 143.4.

6.5 **Electricity Indexation**

The electricity indexation factor ("IXElec") shall be calculated as follows:

$$\mathbf{IXElec = IXElecP_m \div IXElec_0}$$

Where:

IXElec = The electricity indexation factor for the relevant Payment Period

$IXElecP_m$ = the average (mean) (in pounds) of the:

(a) London Energy Brokers Association "Working Days (07:30 - 5:00pm)" baseload index for (and which shall be applied in respect of) each Business Day;

(b) London Energy Brokers Association "Day Ahead Weekend (07:30am - 5:00pm)" baseload index for (and which shall be applied in respect of) each Saturday and Sunday; and

(c) London Energy Brokers Association "1st Bank Holiday Working Days (07:30 am - 5:00pm)" index or "2nd Bank Holiday Working Days Index (07:30 am - 5:00pm)" baseload index as the case may be for (and which shall be applied in respect of) each bank holiday,

in respect of each day (between the day after the NWTF Planned Completion Date and the Expiry Date) in the relevant Payment Period (including where the relevant Payment Period is the final Payment Period).

$IXElec_0$ = the base index for electricity, being the average (mean) (in pounds) of the London Energy Brokers Association "All Days" UK Power Index (Trade Date), (including, where relevant, the relevant "All Days" index in respect of a Saturday, Sunday or bank holiday) for each day in the 12 month period ending on 30 September 2008, being £65.47141.

6.6 Calculating the Deflated Market Tested Landfill Rate

Pursuant to **paragraph 1.4.3** of this **Schedule 3**, the Deflated Market Tested Landfill Rate shall be calculated as follows:

$$\mathbf{DMTLR = AMTLR \div RPIXC_y}$$

Where:

DMTLR = the Deflated Market Tested Landfill Rate

AMTLR = the Adjusted Market Tested Landfill Rate, determined in accordance with **paragraph 6.6.1** below

$RPIXC_y$ = the Retail Prices Indexation Factor Cumulative for the relevant Contract Year calculated in accordance with **paragraph 6.3** above

6.6.1 **Calculating the Adjusted Market Tested Landfill Rate**

The Adjusted Market Tested Landfill Rate shall be calculated as follows:

AMTLR = BLR + EMLR

Where:

AMTLR = the Adjusted Market Tested Landfill Rate

BLR = The base Landfill rate being the lower of:

(a) the average (mean, weighted as appropriate based on forecast tonnages of Contract Waste expected to be disposed of at each Landifll site) nominal market tested tonnage rate for Landfill for the relevant Contract Year, determined in accordance with **clause 35**; and

(b) the product of £20.41 and the Retail Prices Indexation Factor Cumulative for the relevant Contract Year calculated in accordance with **paragraph 6.3** above for the relevant Contract Year.

EMLR = the Excess Market Landfill Rate being:

(a) the average (mean, weighted as appropriate based on forecast tonnages of Contract Waste expected to be disposed of at each Landfill site) nominal market tested tonnage rate for Landfill for the relevant Contract Year, determined in accordance with **clause 35**; less

(b) the product of £28.15 and the Retail Prices Indexation Factor Cumulative for the relevant Contract Year calculated in accordance with **paragraph 6.3** above for the relevant Contract Year,

provided always that EMLR shall not be less than zero