

Ross Newby, Esq.  
HM Treasury,  
1 Parliament Square,  
London SW1P 3AG

2<sup>nd</sup> June 1998

Dear Ross,

### **Extension of contract term**

Three alternative propositions exist, any of which we feel could be used to support an extension of term of circa five years if the parties so agree.

All of these arguments presume that the five year 'steady state' period set out in the original OJEC notice should not be increased.

Schedule B7 of the Authorities' Agreement sets out a sequence of activities which goes through Operational Trial and Roll Out of both the post offices and BA card population and concludes when a 'Review, Validation and Rectification period' is completed. This rectification period was to be of seven months duration and its completion marks the Roll Out Completion Date and the point at which Steady State begins.

The original start date for Steady State was March 2000. This was the beginning of a five year Steady State period ending in February 2005. The Roll Out period was extended and the start date for Steady State deferred last year on a 'no fault' basis from March to October 2000 in recognition of programme delays incurred up to that point and to compensate the contractor for additional costs incurred with respect to training. The POCL Steady State period remained five years.

There is a precedent therefore for extending the Roll Out period on a 'no fault' basis, where it has been acknowledged that the difficulties and complexities of the programme as they affected all three parties had contributed to the delay and that the contractor had picked up additional costs not contemplated in the contract.

The three rationales for further extension are as follows.

1. We now understand from the latest CAPS Migration Strategy Update we have sight of (April) that the conversion of BA customers to cards will not be completed by CAPS until September 2001 and consequently in the field until March 2002 at the earliest (there being a 26 week transition period from order books to cards). The added risks associated with data validation suggest that, to be prudent, a significant measure of

contingency should be applied to this date. Given that the original contracted date was July 1999, a contingency of twelve month would not seem unreasonable. A rectification period of at least seven months (logically more given the difficulties) should then be added. The revised Roll Out Completion date is defined by this derivation, and the five years of Steady State should start at this point.

2. The Roll Out of POCL Infrastructure Services to every post office, given the space constraints, is now recognised as challenging to the point where it is likely that not all post offices can be automated until new technology is brought to bear. Technology refresh would in the normal course take place in or about 2005. In return for a commitment to technology refresh by the contractor, it would be logical to deem this to be the Roll Out Completion Date and for Steady State to start at that point.
3. The original seven month rectification period was based on simplistic assumptions as to ease of implementation which we now know to be understated. It would be logical to extend that period by a number of years to account for factors such as the above, without necessarily being specific as to the reasons.

Yours sincerely,

Tony Oppenheim

Commercial and Finance Director

cc. John Bennett