Bitumen volume based contract price adjustment

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Outline

- The problems with the 2001 index based method
- The new bitumen volume based method
- The web based tool to automate calculations

Problems with the 2001 index based method

- Method uses a fixed weight for bitumen
- Can over or under compensate
- Price volatility in 2008 revealed weaknesses
- The 2001 method is applied in a variety of ways
- Perceived as unfairly allocating risk
- The new method addresses these problems

The solution …

… the new bitumen volume based method

- Take bitumen out / treat it separately
- Pay adjustment on residual bitumen volume
- Pay monthly
- Index all costs other than bitumen (new index)
- New formula …

$$C = CI + CB$$

$$CI = Value\ (p/100) \times (I / I' - 1)$$

The solution (cont.)

- CB accounts for bitumen cost fluctuation alone

  CB = Volume x (Bit – Bit')

- The old approach used 'CI' alone & 2001 index
- NZTA to provide a web based tool
- Details found on www.nzta.govt.nz – search on "procurement tools"