Bitumen volume based contract price adjustment
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 ...

\[ C = C_I + C_B \]
\[ C_I = \text{Value (p/100)} \times \left( \frac{I}{I'} - 1 \right) \]
The solution (cont.)

- CB accounts for bitumen cost fluctuation alone
  \[ CB = \text{Volume} \times (\text{Bit} - \text{Bit'}) \]
- The old approach used ‘CI’ alone & 2001 index
- NZTA to provide a web based tool
- Details found on [www.nzta.govt.nz](http://www.nzta.govt.nz) – search on “procurement tools”