



**Construction Cost Update (Cable Television)
Contract Number LGS01355
Typical Construction Configuration**

Commentary – August 14, 2009 delivery Date

A) Introduction

The Excel Model called Final Construction Costs2.xls has been modified to include information that Shaw Cable has provided regarding Joint use underground costs specifically for these areas:

- Calgary
- Outside Calgary
- Edmonton
- Outside Edmonton

They are all different and required a change in the Computer Model structure to accommodate these differences.

Some of the information regarding the \$200 per lot costs for Joint Use Underground Construction outside of Edmonton requires further clarification by Shaw Cable. However, the structure of the Model probably will not have to be changed, only the data entered into the model may require changes.

Another area that may require data entry changes is Aerial and Underground Subscriber Drop costs. I am still waiting for the cost information on these items, from Shaw Cable.

The Excel Model for July 1, 2008 with the structure changes is attached and is called Final Construction Costs3.xls.

B) Commentary regarding the July 1, 2009 Construction Costs Update

I have received most of the July 1, 2009 prices from a Contractor and a Supplier.

These are a "sampling of prices" that has been used to update the 2008 Model.

The sampling indicates that there have been huge increases in some of the labor and some of the materials costs.

i) Contractor Costs

The Contractor has indicated that his costs have only increased by about 5% over the past year but his rate schedule is substantially greater.

Some reasons are:

- New ownership (the previous owner has died).
- Some of the key Shaw personnel have retired.
- New method of calculating Labor costs for equipment placement and activation.

Apparently, the new managers at Shaw had a meeting with several of their contractors to standardize the methods used for costing and the costs.

Example: The Contractor I have used as a reference had costs for the "installation of a Tap" broken down into component parts:

- Tap placement + two connectors + termination if needed + level checks if needed + location visits all costed separately in different areas of the quote.



Other Contractors have just used one price called Tap Installation.

Now, the new Shaw management has set a single price for Tap Installation for all the Contractors. This action has provided a huge increase for some "lucky" contractors with the new Shaw managers probably not realizing it.

The former owner of the Contracting Company indicated that "location visit" costs would be zero for a major project and the new owners say they would not waive that cost.

They are very pleased with the new prices set by Shaw.

However, it should be noted some other labor costs have remained the same and some costs have even gone down.

ii) Material Costs

The huge material cost increases (for some items reported) by the Supplier may be the result of:

- The 14% drop of the Canadian dollar as compared to 2008. Almost all the CATV manufactures are in the US.
- Attempted recovery of losses by US companies after the "melt down" of the Stock Market last fall.
- High Interest costs for borrowing money in the US. The US Banks have severely cut back on loans.

Again, not all material costs have risen. Some costs have remained the same or have fallen since 2008.

The Excel Model that incorporates the updates the 2008 model to 2009 is attached and is called Construction Costs 2009 Update.xls.

C) Summary

The 2008 Model has been modified to include structural changes triggered by information provided by Shaw Cable. Some data entry changes may be required once additional information is received from Shaw Cable.

The Excel Model for July 1, 2008 with the structure changes is attached and is called Final Construction Costs3.xls.

The updated 2009 Model has been developed using a sampling of Contractor and Supplier cost information for July 1, 2009.

The Excel Model that incorporates the updates the 2008 model to 2009 is attached and is called Construction Costs 2009 Update.xls.

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