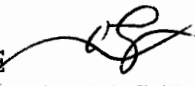






Metro

January 28, 2009

TO: BOARD OF DIRECTORS

THROUGH: ROGER SNOBLE 
CHIEF EXECUTIVE OFFICER

FROM: LONNIE MITCHELL 
CHIEF ADMINISTRATIVE SERVICES OFFICER
MIKE CANNELL 
GENERAL MANAGER, RAIL OPERATIONS

SUBJECT: ANSALDOBREDA P2550 CONTRACT VEHICLE OPTIONS

ISSUE

On April 24, 2003, the Metro Board approved Contract No. P2550, a five-year, firm-fixed-price contract for the manufacture and delivery of 50 light rail vehicles by AnsaldoBreda S.p.A. in the amount of \$158,738,671. The contract also included two options, each for 50 vehicles, exercisable at the discretion of Metro. Rather than exercise one or both of the options, staff will issue a new, competitive, best-value solicitation for approximately 110 new vehicles to support the rail projects identified in Measure R.

DISCUSSION

The contract options for 50 vehicles each were originally included in the contract to make vehicles available for future rail expansion, as well as for replacement of fleet vehicles scheduled for major overhaul or retirement. Additional vehicles could also be used for extended rail operations, and longer trains on shorter headways.

Originally, the last dates to exercise the options were April 2006 and June 2007, respectively. Because of the uncertainty and lateness of the delivery of the original 50 vehicles by the contractor, Metro did not exercise the options, and instead negotiated several extensions. Also, during that period, the exact number of vehicles that Metro required was still in question. Each option is now set to expire on March 31, 2009.

Recently, with the passage of Measure R, the number of vehicles required for current and future projects has become clearer. Projections indicate that 110 additional vehicles will be required by 2017 to satisfy requirements for the Expo II and Foothill Extension Projects and system-wide service improvements. Other projects, such as Crenshaw Line and Green Line Extension, are also being considered. Based on these events, Staff is now revisiting the strategic plan for acquiring railcars, including the cost, schedule and technical performance risk of exercising the P2550 contract options.

Currently, Metro has three different light rail vehicles: the P865/P2020 cars on the Blue Line manufactured by Sumitomo, the P2000 cars on the Green Line and Gold Line manufactured by Siemens, and the P2550 cars manufactured by AnsaldoBreda, which will be employed for both the Gold and Expo lines. The P865/P2020 and P2000 cars have trainline capability and can operate with each other. However, the P2550 cars cannot trainline or operate with the P865/P2020/P2000 cars. Moreover, they cannot be modified to trainline except at significant expense. This means that we cannot operate coupled mixed fleets. If the Regional Connector is established to connect all lines, as proposed by Measure R, then it is more important than ever that all cars be compatible with each other.

To add to the complexity of the vehicle management decisions, the 69 Blue Line P865/P2020 cars will undergo mid-life overhaul starting next year. That process will take approximately five years to complete. Overhaul of the 52 Green and Gold Line P2000 cars will follow thereafter. We intend that the retrofit be performed by the same car manufacturer selected to provide the next quantity of light rail vehicles. That manufacturer would include in its overhaul the latest technology and subsystems of the next light rail vehicles purchased to assure their complete compatibility. The new and overhauled vehicles would therefore be very similar, almost identical, except for the carshell body. Thus, the car manufacturer Metro selects to provide the next series of new cars over the next few years must be carefully selected.

AnsaldoBreda's schedule and technical performance under the P2550 contract have not met the requirements of the contract. All 50 light rail vehicles were to be delivered by June 2007. Only 19 vehicles have been delivered to date, of which 13 have been conditionally accepted and are operating in revenue service. The 50th vehicle is scheduled to be delivered and accepted approximately July 10, 2010, three years late. Furthermore, the vehicle is 5,000-6,000 pounds overweight. It consumes more energy because of the weight and design flaws. Any potential benefit of regenerative energy placed back in the electric grid from braking (which is more often dissipated as heat), is offset by the extra energy consumed due to the excessive weight of the vehicle. Analysis will be conducted to measure the loss of energy and associated costs from AnsaldoBreda's non-compliance with weight requirements of the contract. Moreover, the overweight vehicles exceed Caltrans tolerances, which may preclude them from being operated on the Green Line. The weight matter will be dealt with as part of contract close out. In addition, our customers tell us the seats are too narrow.

Based on the above, Staff will issue a new solicitation to procure the required new light rail vehicles in combination with the midlife overhaul services for Metro's light rail and heavy rail vehicles. This will ensure a fully compatible fleet.

NEXT STEPS

1. Identify current vehicle requirements, delivery schedule, and funding source.....March, 2009
2. Request Board authorization to procure by competitive negotiations applying best value procurement practices (Public Utilities Code 130238).....March Meeting
3. Issue Request for Industry Review of car specification and overhaul specification and contract terms and conditions.....March 2009
4. Issue Request for Proposal for new cars and overhaul....July 2009
5. Award vehicle contract.....no later than January 2010

January 20, 2009

To: Mr. Lonnie Mitchell,
Chief Administrative Services Officer,
LACMTA

Dear Mr. Mitchell:

AnsaldoBreda ("BREDA") is very proud that our trains are known globally for their performance, durability and, most importantly, safety. As you probably know, outside of the New York Metropolitan area, BREDA is the largest manufacturer of transit rail cars in the United States, with fleets of more than one thousand rail cars in Washington DC, San Francisco, Atlanta, Cleveland and, also, in Los Angeles (the entire 104 red line subway cars have been built by BREDA).

BREDA has historically enjoyed a strong and positive working relationship with the Los Angeles County Metropolitan Authority ("METRO") going back to when BREDA earned and delivered upon its first procurement with METRO. At that time, Mr. Charles W. Stark, METRO's-then Executive Officer, stated:

"As one of our prime contractors, Breda demonstrated their ability to successfully manage a complex contract with numerous sub-contractor activities involved. Breda was responsive to METRO's needs and their efforts to maintain a high-level of quality assurance and systems support was outstanding. In addition, they supported METRO in its efforts to open its inaugural Red Line subway system eight months ahead of schedule. Lastly, Breda successfully completed the base-buy procurement of 30 passenger vehicles that were in compliance with all design and performance specifications. These vehicles have been in satisfactory revenue service since January 1993."

BREDA's positive relationship with METRO, and the people of Los Angeles, was only enhanced when BREDA was honored to have been selected by METRO following a competitive bid process, to design and manufacture fifty, world class, high tech P2550 Light Rail Vehicles. Today, about fourteen P2550 LRVs are in revenue service in Los Angeles and BREDA is delivering about two to three vehicles each month and will finish delivering all fifty vehicles in 12 months. The P2550 is today the ONLY vehicle that, thanks to its sophisticated features, is capable of running on all of the three METRO lines (Gold, Green and

AnsaldoBreda, Inc.

1461 Loveridge Road, Pittsburg, CA 94565
Phone: (925) 252-9800 / Fax: (925) 431-3725

Blue) and all of METRO's forecasted expansions. BREDA is particularly excited about the fact that the P2550 is also the ONLY vehicle within METRO's current fleet that is able to regenerate (and return back to the line) fifty percent of the energy that it consumes during acceleration.

In the context of BREDA's design, production and delivery of the first fourteen of fifty P2550 Light Rail Vehicles, BREDA has been pleased to receive positive testimonials from METRO for the quality of the trains manufactured and the level of services provided to METRO. In fact, as recently as December 12, 2008, in an email exchange between Mr. Michael Cannell, METRO's General Manager of Rail Operations, and BREDA's Mike Loundes, its General Manager, (where Mr. Loundes discussed the fact as a result of a positive working process between METRO and BREDA that "great progress" had been made in resolving outstanding technical issues and resulted in twelve vehicles being accepted by METRO), Mr. Cannell stated his appreciation for BREDA's efforts:

"Mike, thank you for your gracious email and I agree with the progress and positive team-work that has allowed us to have 12 cars in December. On behalf of Metro, I wish to thank all of you for a great year and Happy Holidays."

Consistent with the positive feedback BREDA has received from METRO as it directly relates to the P2550, METRO's various representatives had conveyed to BREDA that METRO likely intended to execute the existing contractual option with BREDA to build METRO's next 100 light rail cars. BREDA stood ready, willing and able to deliver on these next 100 light rail vehicles – particularly given that BREDA is now producing two-to-three such vehicles a month at this moment.

It was METRO's representations regarding the intention to execute the option with BREDA for BREDA to build the next 100 light rail cars that led to BREDA's recent decision to pursue plans to develop the company's main American manufacturing plant and its American general headquarters in Los Angeles, which would IMMEDIATELY generate hundreds of direct manufacturing jobs at BREDA and thousands of indirect jobs in the transit industry (based on the data provided by APTA in a recent update on the economic stimulus package) and also significant local revenue for the City and County of Los Angeles.

Thus, in light of BREDA's performance record and BREDA's long-term commitment to Los Angeles, we were surprised because it was completely

inconsistent with what had been previously represented to BREDA regarding the company's overall performance on the P2550 Light Rail Vehicle to hear that METRO has reversed what it had previously signaled was its intention and decided to re-bid the contract to manufacture METRO's next 100 light rail train vehicles.

Moreover, METRO's decision to re-bid the contract is especially surprising given that it would appear to be inconsistent with what is in the best public policy interest of the people of Los Angeles, including:

- (1) Failing to take advantage of the current economic climate and produce immediate new American jobs at a time when the US economy is in a state of near depression including the LA economy at a time when the nation is being challenged "to overcome the worst economic crises since the Great Depression"**
- (2) It will jeopardize BREDA's desires to deepen the company's commitment to the community by locating its main American manufacturing plant and its American headquarters in Los Angeles, thereby immediately creating thousands of long-term jobs and also revenue for the City and County;**
- (3) It runs completely contrary to the stated policies of the American Public Transportation Association ("APTA"), of which METRO is a member, related to the imperative of exercising existing transportation options in order to support American's economic recovery;**
- (4) It will produce unnecessary expenditure of many millions of taxpayer money because of the costs associated with a new bid and the costs associated with the redundancy in inventories of spare parts required to support different fleets of light rail vehicles, instead of operating one standard fleet, like most Transit Agencies in America; and**
- (5) It will create potential safety challenges when it comes to Los Angeles' effort to develop a standardized light rail fleet to meet its needs, where all train operators and maintenance and troubleshooting personnel can be trained on the same train, instead of many types of trains.**

Let us spend a little time discussing each of these referenced public policy concerns.

First, METRO's decision will delay the creation of immediate American jobs which is the number one challenge to the American economy right now. METRO's decision not to award the option to build the additional 100 vehicles will lead to the immediate loss of approximately 2,000 jobs (including sub suppliers and services). Manufacturing a rail car is a work intensive activity and, therefore, building 100 rail cars will create well over 2,000 stable jobs. With an unemployment rate that could reach ten percent in 2009 and a President who has called for a massive infusion of public spending to help "jump start" the economy, we are simply mystified as to any decision that will lead to additional job loss at this time.

Second, METRO's representation that it will re-bid the project will jeopardize BREDA's plans to locate its American manufacturing facility and headquarters in Los Angeles. In response to the historically positive relationship BREDA has had with METRO, the passage of Measure R and what we were led to believe was the likelihood that METRO intended to exercise the option to build the next 100 light rail trains, in recent months BREDA has been looking to locate its main manufacturing facility and headquarters in Los Angeles in order to create jobs, deepen our relationship and build on our presence in the community. A significant portion of the direct jobs generated by the building of 100 P2550 Light Rail Vehicles would have been in Los Angeles – not to mention the additional indirect jobs related to the construction of these BREDA facilities and City and County revenue that would be created. Obviously, such a location plan – and the thousands of jobs that would come to Los Angeles -- would have to be put on hold if this contract is to be re-bid.

Third, METRO's decision to delay an infrastructure project would seem to run directly counter to the expressed policy views of APTA, of which METRO is a member. It is well documented that for every public dollar of infrastructure spent – the economy gets back \$1.50. APTA, which represents the various Transportation Authorities around the USA in Washington, DC (including METRO), has formally written to the Obama Transition Team and made it clear that it is in the interest of the nation's economic recovery that all existing contractual options for rail cars be immediately awarded and that, in addition, more options be allowed in existing contracts, in order to immediately create new jobs. APTA's policy specifically discourages authorities from organizing new tenders as opposed to exercising options because the delays and uncertainties associated with a re-bid would not produce immediate jobs necessary for the economic turnaround.

In light of APTA's letter, it would seem virtually impossible for METRO to re-bid a contract for 100 light rail vehicles that will not result in delay at a time when it is imperative that we stimulate the economy. We are not aware of another major light rail infrastructure project put out for a re-bid that has resulted in sophisticated light rail cars being bid on, designed, tested and re-tested for safety reasons and manufactured in anything less than five years from Board decision to start a bid process.

To be specific in terms of how the delays will effect jobs and the economy, METRO's decision not to exercise the options means that METRO will have to go back in the market, prepare industry reviews, hire expensive technical consultant, produce the RFP and organize a brand new bid (in order to get the same train that METRO already organized and paid for a bid several years ago).

Based on an historical analysis, it normally takes two years before the specs are ready, the bid process is over and the winner is selected and approved by the Board. Then, if METRO is extremely efficient, it takes a further three years before the first rail car is delivered, fully tested in all the lines (blue, green and gold) and receives the safety certification. Assuming everything goes well and no modifications and change orders are necessary, or requested by METRO, and after several months of safety training for the METRO train operators and METRO maintenance engineers, the first train will enter revenue service in Los Angeles five to seven years from today.

Given the historical timelines for a contract re-bid, for at least the next three to four years, there would be no job creation by the winner of the new bid, since jobs in the U.S. are created thanks to the Buy-American Act, only when the train is manufactured, not during the bid process or during the engineering phase.

Fourth, METRO's decision will lead to greater costs to taxpayers. Re-bidding a light train project of the magnitude of 100 rail cars will result in a significant cost to the taxpayers in both direct costs to organize a re-bid and in costs associated with the duplication of spare part that would be inherent to a transportation authority maintaining different train fleets.

To develop a new procurement of this size, it could cost METRO as much as \$15 million (depending on the use of consultants, the degree of their work scope, the need to retain additional specialized consultants for post award management oversight and test control, required by FTA rules for any new procurement).

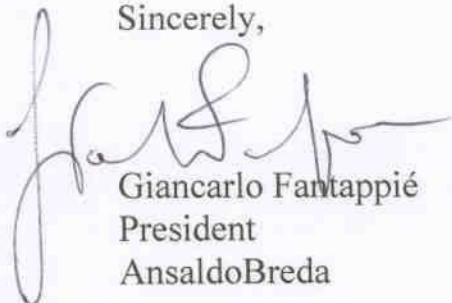
Additionally, internal METRO costs will be additive, along with delayed fare box revenues for the City.

Moreover, taxpayers will incur the additional long-term costs of METRO needing to buy two sets of spare parts to support two different fleets of light rail vehicles. Because the P2550 Light Rail Vehicle is the ONLY vehicle that is capable of running on all of the three METRO lines and their forecasted expansions, METRO stood to benefit from the cost efficiencies associated with such a vehicle. However, with two fleets of light rails – or at least light rail vehicles of the same basic design but different components because built by two different manufacturers – METRO would face additional costs because of lack of one standard product.

And, fifth, the re-bid will pose safety challenges, reduce standardization of products and increase inventories. The P2550 was tested, re-tested and constantly reviewed from a safety perspective. BREDA has provided hundreds of training courses to METRO train operators to teach them how to safely drive this sophisticated vehicle on all METRO lines. The idea of integrating a new design, or at least a new company to build on an existing design after fifty trains have already been delivered by one manufacturer, will pose basic safety challenges inherent to having a system with different manufacturers, different trains, different operators and different safety features. Furthermore, if METRO is going to seek to have manufacturing begin in an abbreviated time frame such an expediting of the normal time line will only add to such safety concerns.

In sum, if METRO is looking to produce the safest, most cost-effective light rail trains that will produce immediate economic activity, including job creation and economic development in Los Angeles, exercising the existing contractual option with BREDA would be the choice. To that end, we remain committed to working with METRO and are hopeful that this matter can be resolved in a way that is in the best public policy interest of the people of Los Angeles.

Sincerely,



Giancarlo Fantappié
President
AnsaldoBreda

January 20, 2009

Page 7 of 7

cc: Mr. Antonio R. Villaraigosa, Chairman of the Board of LACMTA and to the Members of the Board of Directors

METRO RESPONSES TO VARIOUS REPRESENTATIONS MADE BY ANSALDOBREDA IN ITS JANUARY 20, 2009 LETTER TO METRO REGARDING THE P2550 VEHICLE CONTRACT OPTIONS.

1. *“Breda, outside of the New York area, is the largest manufacturer of transit rail cars in the United States”.*

RESPONSE: While Breda has historically been a major supplier of rail vehicles in the United States, largely due to substantial orders of heavy rail vehicles, it is not the largest supplier of Light Rail Vehicles to North America. In fact, since 1995 AnsaldoBreda ranks 3rd in producing light rail vehicles, has only been awarded 3 contracts since 1995, and has only 17% of the market share (**See Attachment I**). Currently, AnsaldoBreda has no active delivery orders with any United States transit property for heavy or light rail vehicles except Metro’s, which is expected to be 3 years behind schedule. The original schedule delivery of all 50 vehicles, as presented to the Operations Committee on April 17, 2003 was May 2007. Final delivery is now projected to be in July of 2010.

2. *“Breda has historically enjoyed a strong and positive working relationship with Metro going back to when Breda earned and delivered upon its first procurement with Metro”, and further quotes a former Metro Executive Officer as follows: “Breda successfully completed the base-buy procurement of 30 passenger vehicles that were in compliance with all design and performance specifications. These vehicles have been in satisfactory revenue service since January 1993”.*

RESPONSE: Sixteen years following the 1993 opening of the Red Line, the reliability and availability of the 30 base buy vehicles is by far the lowest of all of Metro’s rail vehicles. It should be noted that only 13 out of 30 vehicles are in service today. The second most unreliable vehicle fleet is unfortunately the new P2550 light rail vehicles. To put this in perspective, reliability rates of rail vehicles is measured as Mean Miles between Failure (MMBF) or the number of miles traveled between mechanical/electrical failures. The MMBF for the base buy heavy rail cars, which Breda refers to as a good performing vehicle, is 18,545 miles and the MMBF for the P2550 is 14,069 miles. For purposes of comparison, the MMBF for the P2000 is 37,424 miles or nearly double the mileage.

While it has been recognized that Breda has recently made improvements in its vehicle delivery process for P2550 vehicles, there are a number of factors that should be noted:

- a) The P2550 Vehicle contract is approximately 3 years behind the original schedule and today Metro has only 13 conditionally accepted vehicles with 6 more on the property awaiting testing. Metro does not anticipate granting Final Acceptance until all 50 of the P2550 vehicles meet the final contract

specifications. The balance of the contract, 30 vehicles, are still being fabricated or assembled in Pittsburg, California and Italy.

- b) Currently, there are no P2550 vehicles accepted for use on either the Blue Line or the Green Line nor is any progress likely to occur in this area for another six months.
- c) Breda's recent performance improvements have largely occurred because of Metro's proactive approach of getting vehicles out of the yard and onto the main line to evaluate performance and trouble-shoot problems. In fact, Metro had to take the unprecedented step of moving the entire vehicle engineering team from Division 20 (Red Line Facility) to Division 21 (Gold Line facility) in 2007 to actively oversee Breda's activities in commissioning enough vehicles in time for the Eastside opening. If Metro had not put additional pressure on Breda it is uncertain whether the Eastside Extension would open in 2009. Even through all of Metro's effort, to date, Breda has failed to provide a local on-site Project Manager to oversee this contract.

3. With *"the Passage of Measure R and what we were led to believe was the likelihood that Metro intended to exercise the option to build the next 100 light rail trains, in recent months Breda has been looking to locate its main manufacturing plant and headquarters in the Los Angeles in order to create jobs, deepen our relationship and build on our presence in the community"* and *"Metro's representation that it will re-bid jeopardizes Breda's plans to locate its American manufacturing facility and headquarter to Los Angeles"*.

RESPONSE: Metro was surprised by the implications threaded throughout the Breda letter that could lead one to believe that Metro was not only declining a vehicle option, but also declining a major economic stimulus opportunity by not allowing Breda to locate a manufacturing headquarters in Los Angeles for the purpose of creating jobs for the citizens of Los Angeles and to build upon its own presence in the community. The fact is, Metro and Breda have never had such a discussion, nor have there even been any hints of such an offer being made. To suggest that discussions of this nature have occurred and that such commitments were made, as well as giving the impression that Breda has any community relationship to build upon in Los Angeles is simply not accurate.

It is not clear from the contents of Breda's letter that any additional jobs would be created with Breda's proposed approach as compared to other rail vehicle suppliers. In fact, Breda has no rail vehicle manufacturing plant in North America and has only an assembly site, which provides minimal jobs as compared to a manufacturing plant.

The argument for having a manufacturing plant in Los Angeles, or at least the State of California, is appealing as it would create a number of jobs. As noted in

our previous correspondence with AnsaldoBreda Inc., Metro encouraged them to competitively participate in the new light rail procurement where they will have the opportunity to commit contractually to such a manufacturing plant.

To date, it does not appear that Breda has made any commitment beyond its immediate contractual needs.

4. "Thus in light of BREDA's performance record and Breda's long-term commitment to Los Angeles, we were surprised because it was completely inconsistent with what had been previously represented...."

RESPONSE: While Metro has discussed the possibility of exercising options for additional P2550 cars with Breda, Metro has never made a commitment to do so. Furthermore, Metro has made it clear on a number of occasions that if it were considering exercising the options, that there were a number of factors that had to be included in that consideration; including, but not limited to, Breda addressing various outstanding issues with the P2550 vehicle. Three separate meetings were held with Breda during the last two months of 2008 to address design issues and other concerns. It wasn't until the 3rd meeting that Breda finally provided a response, and that response was unsatisfactory.

Metro certainly did not signal any *intent* to commit to and/or purchase 100 additional cars from Breda. Metro's only signal was one of possible consideration of an option of 35 cars. An option for 35 vehicles was seriously considered in order to complete the future needs of the Gold Line should the Foothill extension be realized. The only reason for considering this option was because the Gold Line operates independent of all other lines and because the P2550 vehicles cannot operate in trainline (together in revenue service) with Metro's other light rail vehicles operating on the Gold, Green, and Blue Lines. However, now with the possibility of the Regional Connector being constructed, dedicating the operation of separate fleets to specific lines will no longer be a viable approach and now Metro must find a way to develop a system-wide compatibility which is currently lacking in the P2550.

Statements that the P2550 is the only car that can operate on all lines is simply incorrect. The only vehicle that can do this today is the P2000.

5. Breda is particularly excited about the fact that the P2550 is the ONLY vehicle within Metro's current fleet that is able to regenerate (and return back to the line) fifty percent of the energy that it consumes during acceleration".

RESPONSE: Metro is excited but for a much different reason. On numerous occasions, Breda has been told that their vehicle consumes more electricity than any other Metro light rail vehicle. One computer simulation estimated that as much as 30% more power is needed to operate the P2550 vehicle. As a result, Metro intends to direct Breda to reduce the performance of its vehicles.

Unfortunately, propelling a vehicle which is 6,000 pounds heavier than contractually specified will significantly add to the cost of operating this vehicle fleet.

While the Breda vehicle does have regenerative braking performance, this is not a unique capability of Breda and is a feature of Metro's existing light rail vehicles. All modern rail vehicles can provide similar levels of performance. Furthermore, it should be noted that 50% regenerative capability is a theoretical capability that almost certainly will not be achieved in practice because often there is no load available for a rail vehicle to regenerate power into for storage purposes. It only benefits a system that operates in very tight headways where one train is accelerating and the other decelerating over a small section of track. As already stated, this "regenerative energy" cannot be stored and is generally wasted as dissipated heat.

Representing Breda's vehicle as a Green Train is misleading and Metro hopes to soon quantify the additional energy that will be consumed over the life of these vehicles. The results of this analysis will be relied upon to develop the appropriate contractual remedy during the P2550 contract close-out.

6. "The P2550 Vehicle is the ONLY vehicle that thanks to its sophisticated features, is capable of running on all of the three METRO lines (Gold, Green, and Blue) and all of Metro's forecasted expansions."

RESPONSE: While the contract requires Breda to supply a vehicle equipped to operate on all light rail lines, the vehicle has not yet been conditionally accepted for revenue operation on any line other than the Gold Line. Metro remains concerned that these vehicles may encounter similar integration issues and EMI problems already experienced on the Gold Line when testing on the Blue, Green, and Expo Lines begin. If the same problems are experienced during this testing process, resolving the problems would further delay the final delivery of the remaining cars.

Unfortunately, due to the fact the vehicles are approximately 6,000 lbs overweight and exceed Caltrans weight restrictions, the P2550s may never be able to operate on the Green Line. Additionally, none of these vehicles are compatible to operate with the existing Blue, Green, or original Gold Line vehicles. Although this vehicle has sophisticated subsystems, Metro's existing vehicles are sophisticated and actually operate together today and in the end, may prove to have a far greater level of reliability and availability for day to day operations.

Metro understands, that for reasons that are not yet clear, the trainline compatibility requirement was removed from the contract after award and the Automatic Train Operation function for the Green line was never a contractual

requirement. None the less, Breda's statement that its P2550s can operate on all lines is inaccurate.

7. Based on an historical analysis, it normally takes 2 years before specs are ready, the bid process is over and the winner is selected and approved by the board. Then, if Metro is extremely efficient, it takes a further 3 years for the first rail car is delivered..."

RESPONSE: Other Light Rail vehicle manufactures are capable of meeting Metro's schedule.

Metro is currently working on combined new vehicle/Blue Line rehab procurement and expects to issue documents for industry review in February/March with a view toward a full procurement in the June/July timeframe, subject to Board approval. Because Metro is seeking an off-the-shelf vehicle to the degree possible, Metro believes vehicles can be delivered within the first 24 months of the contract, or by early 2012. From there, Metro anticipates 3 new cars per month, which will meet the vehicle needs by the openings of the light rail lines identified in Measure R by 2017. This schedule is feasible in light of Metro's need and ability to receive and operate these vehicles. AnsaldoBreda has been encouraged to participate in the competitive bidding process with the necessary design modifications to overcome the current vehicle concerns.

8. "Metro's decision will lead to greater costs to taxpayer" and "to develop a new procurement of this size, it could cost Metro as much as \$15 Million (depending upon the use of consultants, the degree of their work scope, and the need to retain additional specialized consultants...."

RESPONSE: As noted above, Metro is developing the new car specification which will minimize solicitation costs by combining the new rail car purchase with the Blue Line LRV rehab procurement. Also, by combining the new and rehab procurements, Metro can ensure that common parts will be provided for both the new cars and the Blue Line car rehab. This has the benefit of both parts commonality and in reducing sub-supplier costs by increasing the quantity of items being procured. By exercising options with Breda alone, Metro would be unable to combine new and rehab procurements and could not ensure commonality of parts and equipment. Additionally, no consultants are being employed for the development of the new light rail vehicle procurements. This effort is being conducted by Metro staff and a draft will be available for industry review as soon as February/March of 2009.

It should be noted that Breda's three-year schedule delay is costing Metro a significant amount of money. Being three years late, Breda is costing the taxpayer, just in consultant fees, approximately \$1.8 million based upon the current contract with LTK for one year. Assuming a 3-year delay, Breda is projected to

cost the taxpayers approximately \$5.4 million. When adding in Metro's internal support, the costs are likely to be double this amount.

9." The re-bid will pose safety challenges" AND "It will create safety challenges when it comes to Los Angeles' effort to develop a standardized light rail fleet to meet its needs, where all train operators and maintenance and troubleshooting personnel can be trained on the same train, instead of many trains".

RESPONSE: A re-bid will not pose safety challenges. Metro's professional staff of train operators and maintainers is more than capable of operating and servicing different vehicles. Proof of this is seen by Metro's ability to operate and maintain various rail vehicles currently in the fleet and even more so when considering the multiple fleets of buses Metro operates and maintains safely and efficiently.

It is also noteworthy that the inability of Metro to couple Breda cars to our existing light rail vehicles, in itself, raises operational concerns. Metro must perform additional modifications at Metro's costs to existing Blue Line vehicles when they are sent out for overhaul.

10. "Thus, in light of Breda's long term commitment to Los Angeles, we were surprised because it was completely inconsistent with what had been previously represented to Breda regarding the company's overall performance on the P2550...."

RESPONSE: Breda should not be surprised that Metro does not intend to exercise the options given the many meetings between Metro and Breda concerning Breda's deficient performance, Breda's acknowledgement of its own delay under the contract, Breda's inability to employ a local project manager, and numerous other outstanding issues.

It is worth noting, that three separate surveys have been conducted to help Metro assess how the P2550's performance is perceived by the public and our employees. Though the surveys were not scientifically conducted, they were objective questionnaires, the responses to which clearly show that passengers, operators, and maintenance staff are more dissatisfied with the P2550 than the older light rail vehicles operating on the Gold Line. Breda was apprised of the survey the results in December of 2008.

In summary, the passengers were very critical of the P2550 as compared to the older P2000 vehicles. One of the major passenger complaints is that the seats are too narrow. Metro has found that the majority of its transverse seats are 2.5 inches narrower than our existing vehicles. Additionally the seats behind the Operator's Cab width is 5 inches more narrow than those on the P2000 and the aisle width is the most narrow of all of Metro's light rail vehicles.

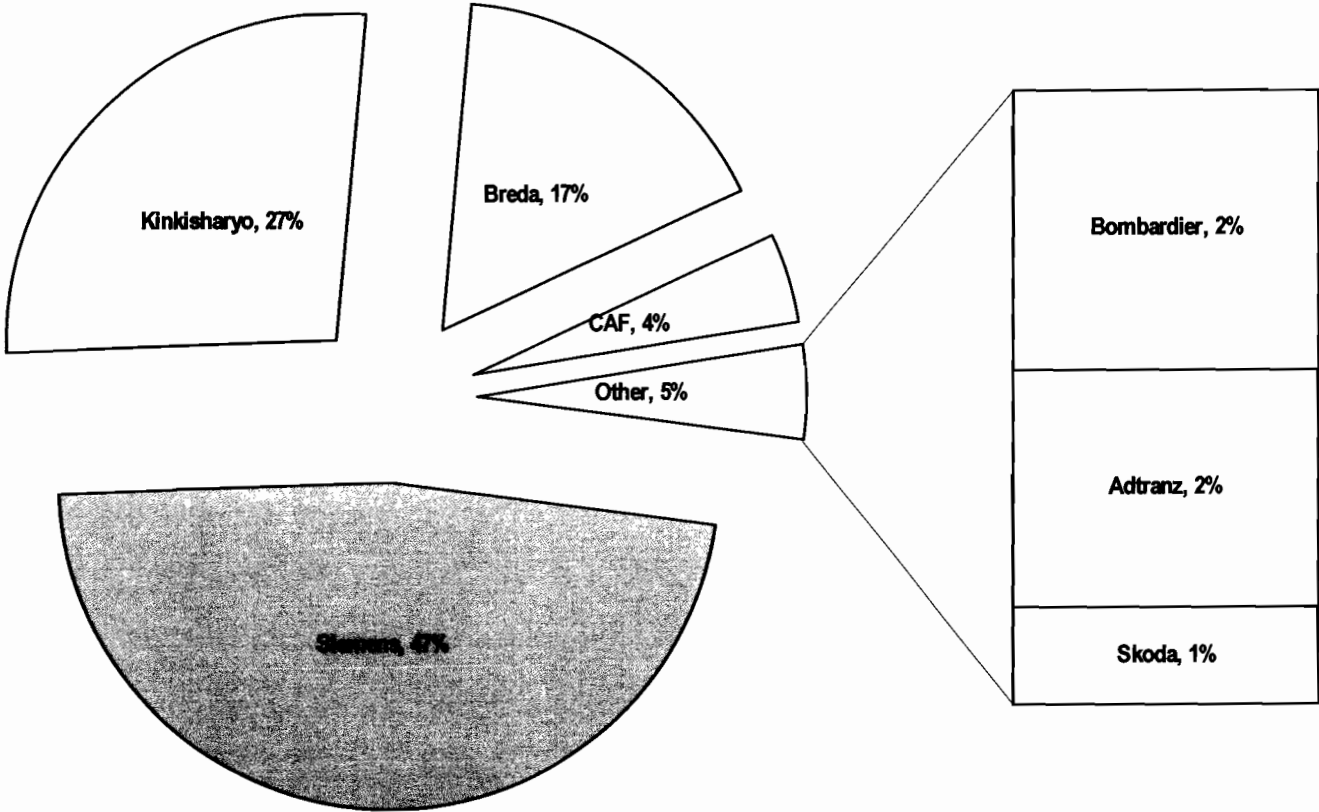
Maintenance worker surveys resulted in a 4 to 1 more favorable opinion of the older P2000 cars after reviewing 10 major subsystems and Metro Train Operators voiced their dissatisfaction of the P2550 by a very large margin when compared to the P2000. Supervisors have also expressed their dissatisfaction with the P2550 in writing as well.

It would not be responsible to ignore the voices of our Passengers, Operators, Maintainers, and Supervisors regarding design concerns which have been expressed to Breda personnel on numerous occasions.

In conclusion, Metro is disappointed with the many misrepresentations made in Breda's letter of January 20, 2009, especially in light of the extraordinary effort Metro staff has provided to Breda throughout the commissioning of the P2550 vehicles.

Attachment I

Market share by revenue since 1995 (escalated to 2008 US\$)



Owner	Builder	Model	Floor	Order date	Quantity	Length (ft)	Capacity (Seats)	Base Unit Price (\$m)*	Escalated Unit Price (2008\$m)**	Price/ Seat (2008\$m)
Baltimore (MTA)	Adtranz		High	1995	18	95	84	\$ 2.90	\$ 4.26	\$ 0.051
Los Angeles, MTA	AnsaldoBreda	P2550	High	2003	50	90	76	\$ 2.76	\$ 3.20	\$ 0.042
Minneapolis,	Bombardier	Flexity	Low	2001	24	94	66	\$ 3.10	\$ 3.81	\$ 0.058
Boston (MBTA),No. 8 LFC	Breda	No. 8 LFC	Low	1995	100	74	44	\$ 2.05	\$ 3.01	\$ 0.068
San Francisco (MUNI)	Breda	LRV3	High	1998	74	75	60	\$ 2.60	\$ 3.49	\$ 0.058
Sacramento,RTD	CAF		High	1999	40	84	64	\$ 2.10	\$ 2.74	\$ 0.043
Pittsburgh (PAT),	CAF		High	2000	28	85	62	\$ 2.30	\$ 2.91	\$ 0.047
Dallas, DART	Kinkisharyo		High	1994	75	93	76	\$ 2.50	\$ 3.78	\$ 0.050
Boston (MBTA),No. 7 SRC	Kinkisharyo	No. 7 SRC	Low	1996	20	74	46	\$ 2.60	\$ 3.71	\$ 0.081
Dallas, DART	Kinkisharyo		High	1998	20	93	76			
Phoenix (Valley Transit),	Kinkisharyo		Low	2004	50	91.5	66	\$ 2.92	\$ 3.29	\$ 0.050
Hudson-Bergen & Newark (NJT),	Kinki-Sharyo		Low	1996	52	90	72	\$ 3.00	\$ 4.28	\$ 0.059
San Jose (VTA),	Kinki-Sharyo		Low	1999	100	90	66	\$ 2.00	\$ 2.61	\$ 0.040
Hudson-Bergen & Newark (NJT),	Kinki-Sharyo		Low	2002	21	90	72			
Seattle (Sound Transit),	Kinkisharyo/ Mitsui		Low	2004	35	95	74	\$ 3.50	\$ 3.94	\$ 0.053
Portland (Tri-Met)	Siemens	SD660	Low	1993	52	92	73	\$ 2.40	\$ 3.74	\$ 0.051
Los Angeles, MTA	Siemens	SD460	High	1994	59	89	72	\$ 2.90	\$ 4.39	\$ 0.061
Salt Lake City,UTA	Siemens	SD100	High	1996	23	81.5	64			
Denver (RTD)	Siemens	SD160	High	1997	34	81.5	64	\$ 2.30	\$ 3.18	\$ 0.050
Calgary	Siemens	SD160	High	1999	11	81.5	60	\$ 2.35	\$ 3.07	\$ 0.051
Calgary	Siemens	SD160	High	2000	21	81.5	60	\$ 2.30	\$ 2.91	\$ 0.049
Denver (RTD)	Siemens	SD160	High	2000	34	81.5	64	\$ 2.30	\$ 2.91	\$ 0.046
Portland (Tri-Met)	Siemens	SD660	Low	2000	17	92	73			
Salt Lake City,UTA	Siemens	SD160	High	2000	17	81.5	56	\$ 2.30	\$ 2.91	\$ 0.052
Houston, Metro	Siemens	S70	Low	2001	18	96	72	\$ 2.60	\$ 3.20	\$ 0.044
San Diego (MTDB)	Siemens	S70	Low	2002	11	90.7	64	\$ 2.80	\$ 3.34	\$ 0.052
Calgary	Siemens	SD160	High	2004	40	81.5	60	\$ 3.20	\$ 3.60	\$ 0.060
Charlotte	Siemens	S70	Low	2004	16	94	68	\$ 2.80	\$ 3.15	\$ 0.046
Edmonton	Siemens	SD160	High	2005	37	81.5	60	\$ 3.24	\$ 3.54	\$ 0.059
Portland (Tri-Met)	Siemens	S70	Low	2007	22	96	68	\$ 3.50	\$ 3.61	\$ 0.053
Charlotte	Siemens	S70	Low	2008	4	94	68	\$ 3.80	\$ 3.80	\$ 0.056
Denver (RTD)	Siemens	SD160	High	2008	55	81.5	64	\$ 3.20	\$ 3.20	\$ 0.050
Norfolk, HRT	Siemens	S70	Low	2008	9	94	68	\$ 3.40	\$ 3.40	\$ 0.050
Salt Lake City,UTA	Siemens	US S70	Low	2008	77	81.5	60	\$ 3.60	\$ 3.60	\$ 0.060
Denver (RTD)	Siemens-Duewag	SD100	High	1995	49	81.5	64	\$ 1.60	\$ 2.35	\$ 0.037
St. Louis (Metro)	Siemens-Duewag	SD460	High	1996	10	89.5	72	\$ 2.10	\$ 2.99	\$ 0.042
St. Louis (Metro)	Siemens-Duewag	SD460	High	1998	24	89.5	72	\$ 2.38	\$ 3.20	\$ 0.044
Portland (City of Portland)	Skoda	Astra	Low	1999	10	66	30	\$ 2.40	\$ 3.13	\$ 0.104

* - Based on published contract value, including spares, training etc.

** - 3% annual average escalation assumed

Average \$ 3.36 \$ 0.05

LRVs delivered since 1995

