

Attachment 12





FILE COPY

Jack McKerchar
 Kaipara District Council
 Private Bag 1001
 Dargaville
 NORTHLAND

20 March 2007
 Our Ref:
 4241479/100/PCO/40
 J1:84275-MAS73L06.DOC

Dear Jack

OPTIONS UNDER ECOCARE ALTERNATIVE COMMERCIAL ACCEPTANCE ARRANGEMENTS

1 Introduction

The EcoCare project scope has recently been "modified" to increase the scope of the EcoCare Project to incorporate the following items:

- Additional areas to be reticulated within the Heads and Village,
- Alternative disposal/ reclamation facilities, and
- Inclusion of house connections.

This "Modification" has also impacted on the duration of the project from the original 14 months to an estimated 24 months.

To enable a working system to be available to Council within the original timeframe (14 months) Earth Tech have offered a revised commercial acceptance arrangement which has a number of features that impact all parties to the EcoCare Project. These features include:

- Lower financing costs to Council
- Ability to charge rates and provide services within the original 14 months (albeit to a smaller initial scale)
- Reduced extent of financial exposure of Earth Tech to ABN Amro

2 Commercial Acceptance

Commercial Acceptance is the critical function of final sign and acceptance that the infrastructure and services have been tested and are capable of providing the required services to the required standard. Under the original scope this was to be achieved on the assumption that a reasonable number of properties would connect to the system quickly. This was a non-contractual obligation for this to occur as the house connection was previously an individual responsibility. With the revised scope the house connections are included within the scope (provided no illegal plumbing has occurred or additional

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P132



connections are required) therefore timing of the house connections can be largely controlled.

Therefore any change to the Commercial Acceptance arrangements must satisfy the criteria to enable similar to better testing arrangements and security for Council prior to accepting the assets and settling the financial transaction.

Under the proposed change there will be two separable portions for Commercial Acceptance namely:

- **Part A** – Includes original reticulated area within the Mangawhai Heads, Treatment plant, transfer pipeline to Lincoln Downs and Storage Dam. House connections in this area will largely be completed with this time but will not be a contractual obligation.
- **Part B** – Includes Mangawhai Village and Jack Boyd Drive and Moir Point areas of the Heads, completion of all house connections and establishment of the irrigation network for the reuse site.

Part A represents some \$32.1M with Part B being some \$14.3M of the capital costs.

Part B Commercial Acceptance enables the complete end to end assessment of the system and if part of the system is failing or not meeting the required standard, Earth Tech will forfeit the Part B payment and will be penalised via the Schedule C performance standards penalties. Part A will be subject to the same level of scrutiny as was originally proposed (before house connections) were included and Earth Tech will retain financial risk of some \$14M exposure in capital costs, on going operational cost penalties as well as reputation risk if they fail to deliver on Part B or in fact if Part A fails during the stage 2 of the project.

Part B will also be a fixed price, flexible scope arrangement which enables the extension of the reticulation network progressively as costs are progressively firmed up. The base of the Village and the backbone through Jack Boyd Drive and Moir Point will be included however fringe properties at the extremities may not be included subject to final costs and or other developments that may occur during the 2 year construction period.

Attached is the proposed servicing plan based on the above concepts.

3 Proposed Savings

The savings to be derived from adopting the multiple Commercial Acceptances is achieved by reducing the amount of funds required for construction financing for a reduced time and by switching financing from more expensive construction financing to the agreed debt financing regime agreed between ABN and Council. The net result is savings in the order of \$320,000 (estimated only) as it will be depend on exact timing of changing the finance package.

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This is illustrated below:

Financing Savings on Construction Finance loan to ETE	(\$2,811,375)
Loan repayments direct to ABN (cheaper finance)	<u>\$2,091,283</u>
Net Savings	\$ 720,092
Less costs of 6 month extension to loan period	(\$ 409,388)
Estimated Loan Savings	\$ 310,704
Plus fee savings on smaller facilities	\$ 11,450
TOTAL ESTIMATED SAVINGS	\$ 322,154

4 Recommendation

The acceptance of the proposed two-staged Commercial Acceptance has many benefits to Council, Earth Tech and the community. The testing regime will remain as originally envisaged (prior to house connections being included) and will remain vigorous and Earth Tech will still remain at risk of non payment on for two significant commercial packages of \$32.4M and then the second package of \$14.3M.

Therefore the achievement of the \$322,154 in savings can be achieved while maintaining the risk profile and is recommended to be accepted *provided that Earth Tech or ABN Amro does not attempt to use this as a lever to re-negotiate the Project Deed or the financing documents*. Both parties have been advised if this occurs then Council will remain with the single Commercial Acceptance date.

Yours sincerely
Brent Johnston
Project Director

P.P. 

on behalf of

Beca Carter Hollings & Ferner Ltd

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Email: brent.johnston@beca.com

Copy

Peter Elliott - EPS International

SEE SHEET 2 FOR CONTINUATION

LEGEND:

-  AREA SERVICED BY BASE SEWER DESIGN
-  ECO CARE DRAINAGE DISTRICT BOUNDARY
-  NEW DEVELOPMENT IN PROGRESS
-  NEW DEVELOPMENT NOT STARTED
-  POTENTIAL DEVELOPMENT OUTSIDE DRAINAGE DISTRICT
-  PROPERTIES TO BE CONSIDERED FOR INCLUSION



SCALE 1:5000
89873-CW-8902-A



Earth Tech
Water Industry Group - Melbourne
Tel 8517 9277 Fax 8517 9422

Earth Tech IMD
Mangawhai EcoCare

Development Status
Sheet 3 of 3
Drawing No. 89873-8902
Job No. 80372

Rev A

ISSUED FOR COMMENT

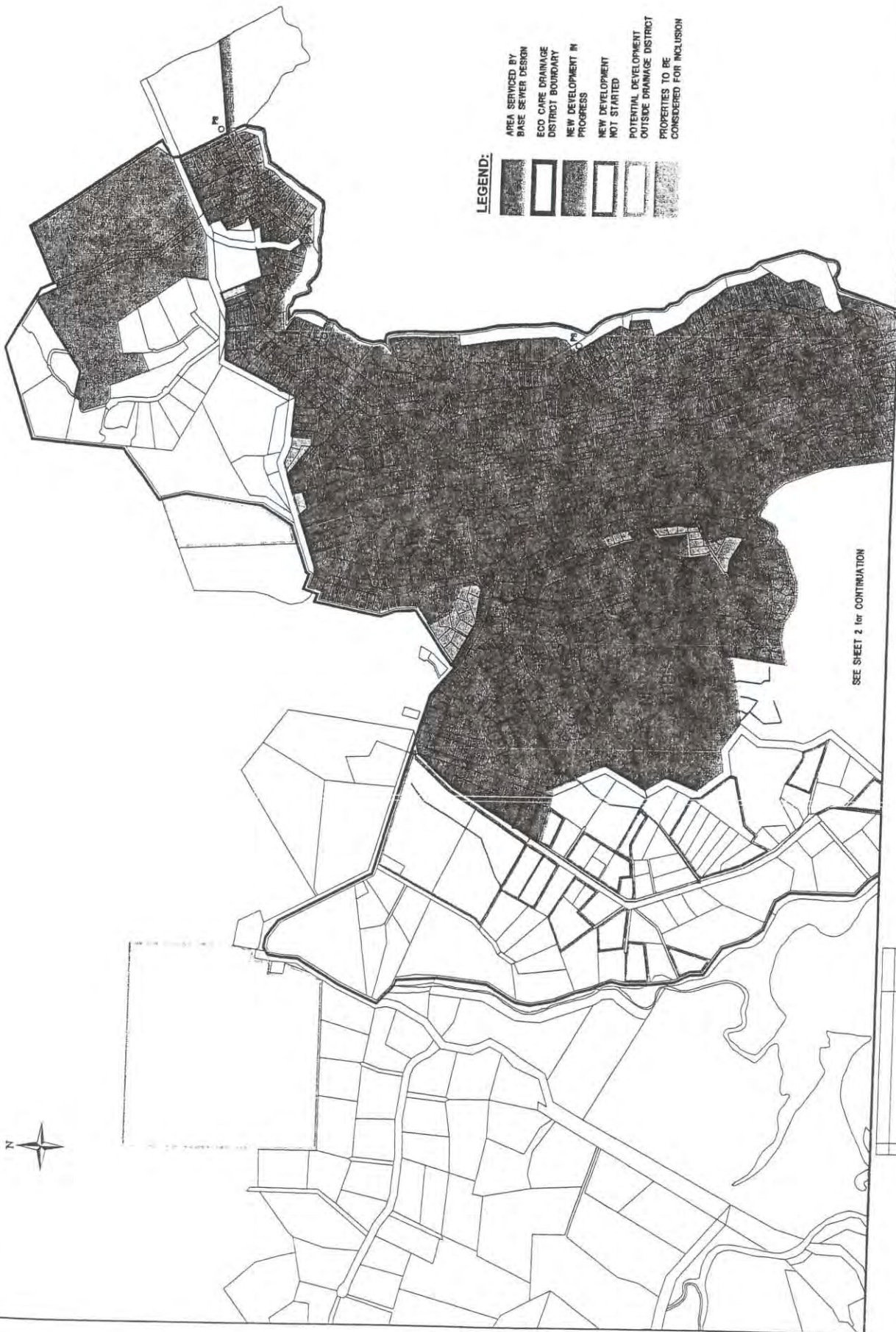
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Designed M. Oliver
Drawn P. Kombarova
Checked
1 May 06
1 May 06

ISSUED FOR COMMENT	05 Mar 07
Drawn	PHW

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LEGEND:

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SEE SHEET 2 for CONTINUATION

SCALE 1:5000
89973-CY-8902-A

Earth Tech IMD
Mangawhai EcoCare

Earth Tech
Water Industry Group - Melbourne
Tel 8517 9277 Fax 8517 9422

Development Status
Sheet 1 of 3

Drawing No. 89973-8902
Job No. 90372

Rev A

Designed M. Grew 1 May 08
Drawn P. Kambouras 1 May 08
Checked



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SCALE 1 : 5000 (A1)

NO.	DATE	DESCRIPTION
A	08 Mar 07	ISSUED FOR COMMENT
1	08 Mar 07	ISSUED FOR COMMENT

ecocare
Mangawhai Eco Environment

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LEGEND:



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BASE SEWER DESIGN
- ECO CARE DRAINAGE
DISTRICT BOUNDARY
- NEW DEVELOPMENT IN
PROGRESS
- NEW DEVELOPMENT
NOT STARTED
- POTENTIAL DEVELOPMENT
OUTSIDE DRAINAGE DISTRICT
- PROPERTIES TO BE
CONSIDERED FOR INCLUSION

SCALE 1:5000
89973-CV-8902-A

Earth Tech IMD
Mangawhai EcoCare

Development Status
Sheet 2 of 3

Drawing No. 89973-8902
Job No. 80375

Rev A

Earth Tech
Water Industry Group - Melbourne

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Designed M. Omer
Drawn P. Koufopoulos
Checked



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COMMENT

SCALE 1 : 5000 (A1)



SEE SHEET 3 FOR CONTINUATION

A	ISSUED FOR COMMENT	05 Mar 07	DATE
PROJECT			