

Attachment 2



Report



***Expression of Interest
Recommendation***

Prepared for

Mangawhai EcoCare

By

Project Steering Committee

9 August 2001

1.1 Introduction

The Mangawhai Eco Care Expression of Interest attracted seven submissions from New Zealand and International companies. In the submissions a broad range of options and alternative approaches to the project were canvassed. The breadth of options provided has satisfied Council requirements in this regard. This result has also reinforced that the selected project delivery method with its non-prescriptive approach, if marketed appropriately, can attract a wide range of interest.

The Project team is confident that from this field a final competitive proposal that meets the needs of Council, the Mangawhai community and the NRC can be achieved.

1.2 Process

To ensure integrity of the process, and given the breadth of options canvassed; the varying levels of detail included in the submissions; and the fact that this is a first for this size of project in New Zealand, it was determined by the Project Steering Committee that:

- A formal evaluation process be adopted prior to opening of submissions;
- An Evaluation Team consisting of Peter Elliott, John Lok, Brent Johnston and Mike Ritchie be appointed to undertake detailed evaluation; and
- Presentations be requested from all seven proponents.

The Steering Committee was invited to attend as observers for as many of the presentations as possible.

These presentations were conducted on 31st July and 1st August 2001.

Mayor Ramsey attended 4 presentations on 31st July 2001 with Chief Executive Jack McKerchar, Councillors Richard Bull and Joanna Roberts and Council Regulatory Support Officer Dereck Wright attending the presentations on both days.

The recommendations arising from this process are the subject of this report.

All members of the Project Steering Committee agreed the process and outcomes had been pleasing and provided confidence that the interests of Council and the Mangawhai community would be preserved in the process.

Importantly, this recommendation is based on short listing companies not the options they have canvassed and therefore there remains competitive pressure on the short listed parties to continue to explore all options that best meet the requirements of the project including being affordable for the community.

1.3 Recommendation

The Evaluation Team in considering the submissions and the subsequent presentations recommend that the following companies/ consortia be short listed, in no particular order, to proceed to the Request for Proposal stage for the Mangawhai EcoCare project:

RECOMMENDED		
▪ NorthPower	▪ Simon Engineering	▪ Tyco

Each of these companies or consortia confidently addressed the nominated selection criteria and demonstrated a superior understanding of the project and the concerns of the Mangawhai community including Council requirements and expectations.

The remaining four companies were not recommended.

NOT RECOMMENDED	
▪ Duffill Watts & King	▪ EarthCare
▪ Works Infrastructure	▪ Fletchers

A summary of each of the companies/ consortia along with a consensus view of their relative strengths and weaknesses is included as Appendix A.

The Project Steering Committee and Evaluation Team have discussed the above recommendation and have agreed its submission to Council for ratification.

In the above discussion the key issue was the option to include a fourth proponent on the short list.

The advantages and disadvantages of this option were canvassed and are summarised below:

ADVANTAGES	DISADVANTAGES
▪ Preserve competitiveness if a party withdraws or merges	▪ Will they in practice, exert any competitive pressure if they are unsatisfactory?
▪ Would include a second NZ based company	▪ Can make a company commit significant expenditure and resources (\$150K +) to prepare a submission with little chance of success
▪ May encourage a company to pursue further opportunities and learn from this process.	▪ On relatively small projects, the fewer companies short listed the more likely to get a more concerted effort from the bidders. (i.e. 33% chance of success versus 25%)

	<ul style="list-style-type: none"> ▪ May encourage a significant and adverse reduction in transfer between Council and the proponent. Council may end up carrying unintended risks.
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In consideration of the above the Evaluation Team considers that it is unlikely that one of the recommended companies will withdraw and, if they did, two strong and competitive players would remain within the field.

Of the four companies not recommended there was a further separation with the Duffill Watts & King and Works companies being grouped ahead of Fletchers and Earthcare. The Evaluation Team however considered that:

- The Duffill Watts & King and Works submissions did not adequately meet the risk profile established by Council and their inclusion would therefore represent a major risk to the long term success of the project;
- Neither Duffill Watts & King nor Works can be confidently recommended as a long term partner of Council for the Mangawhai Project;
- Neither of the two companies are likely to exert price pressure on the short listed parties;
- They are not likely to have a realistic chance of successfully competing with the recommended short listed companies/ consortia and should therefore not be requested to expend the resources unnecessarily.

Council may have a preference that a fourth proponent be included in the short list. If so, the Project Team recommends that a formal review of the risk management profile be undertaken with Council to ensure Council has a full understanding of the potential impacts. Any changes in this regard should be a policy decision of Council rather than allow significant change to the risk management profile to emerge through the process.

This recommendation is provided to the Council for their endorsement.

Peter Elliott

John Lok

Mike Ritchie

Brent Johnston

**SUMMARY OF COMPANIES AND CONSORTIA
(SUBMISSIONS AND PRESENTATIONS)**

NorthPower

This consortium is lead by North Power and includes McBreen Jenkins, Cook Costello and Harrison Grierson. A strong locally based consortium founded on Northpower's balance sheet strength that have indicated a strong and competitive financing arrangement. NorthPower would be the contracting party.

The consortium has submitted a very strong submission addressing each criterion and illustrating strong views on how they would proceed and the options to be canvassed. The management commitment to the Project, KDC and Mangawhai community is strong and the weaknesses within their consortium have been acknowledged and addressed to some extent relative to direct experience in the water and sewerage industry.

They have canvassed a wide range of options from a technical and commercial perspective and clearly understand the NZ environment.

The Mangawhai project fits Northpower's long term strategy to be utility and infrastructure provider in New Zealand. Northpower are a suitable long term partner for Kaipara District Council notwithstanding some members of the team may change.

Earth Tech Engineering

Earth Tech Engineering is a division of Tyco, a large international company including a range of industry sectors with aggressive growth aspirations in New Zealand and Australia. Earth Tech would be the contracting company but would be supported by Tyco as the parent company and through Fisher Stewart and McConnell Dowell as principal sub contractors.

A very comprehensive submission and presentation that addressed the criteria and was reinforced by demonstrated wastewater experience across a range of small and large communities on a global scale.

Tyco demonstrated through knowledge and practical examples a range of alternatives that could be applied to Mangawhai EcoCare and has experience in dealing with small community based systems. They have committed to financing from their Balance Sheet and have indicated competitive financing arrangements.

Tyco currently have a products and sales team in a New Zealand subsidiary and the Mangawhai project fits their strategy to aggressively expand throughout Australia and New Zealand in the water and wastewater industry.

Earth Tech is recommended as a suitable long term partner of Kaipara District Council.

Simon Engineering

Simon Engineering is a division of the Henry Walker Eltin Group a medium size Australian listed company that has aspirations to progressively grow its business through the establishment of long term relationships through small to medium size BOOT projects and other vehicles. Simon Engineering will be contracting party supported by the New Zealand branch of GH&D (consulting engineers) and DC Potter & Associates who are specialists in small community based systems in South Australia.

The company demonstrated a strong technical focus on finding appropriate and affordable solutions to meet the needs of a range of community sizes and requirements. They have outlined an innovative range of technical solutions that can be delivered in a cost effective manner.

Through their submission and particularly through the presentation, they demonstrated a clear understanding of the project, the drivers within KDC and Mangawhai and how they could be met.

They have offered an alternative financing option that will require further investigation through the next stage.

Simon Engineering is recommended as a suitable long term a partner of Kaipara District Council.

Duffill Watts and King (DWK)

DWK are an experienced local consulting firm that currently supports Council through the provision of a range of engineering services. In addition they own a range of small water supply systems in northern New Zealand. The company has aspirations to expand further into infrastructure projects and ownership.

DWK approach to the water supply systems offers a good model with some part ownership by the local hands on "operator" to encourage commitment to the community and service standards.

DWK however, exhibited a lack of understanding of the financial strength required to effectively support this style of project. During discussions, it was apparent that they did not appreciate the requirement for DWK to fully guarantee the long term delivery of project outputs.

The major concerns with DWK are:

- The financial strength of what is essentially a consulting firm's balance sheet and the level of financing required and the subsequent guarantees that would be required from KDC. Under a DWK option it is highly likely that Council would need to guarantee regular payments regardless of performance to DWK or their financiers to ensure availability of funding at competitive prices. This effectively eliminates the commercial drivers that underpin long-term innovation and service delivery over the 25 year period.

- The capacity of DWK to continue to grow and sustain competitive arrangements over the long term.

Works Infrastructure

This group is a division of the Downer Group a large Australian listed engineering company. Works have previously provided services to Council and have previously focussed largely on outsourced service provision of a range of functions to councils and other government bodies. They are now targeting both private and public sector infrastructure service provision. They would be the lead contracting party and would be supported by URS an experienced wastewater design team.

URS offers a sound design focus however Works demonstrated a lack of understanding of the commercial drivers associated with a BOOT project and a distinct lack of appreciation of the Mangawhai community issues.

In effect they demonstrated a traditional design and construction focus and through their presentation and submission indicated they would most likely provide a high cost conservative wastewater treatment system. They acknowledged some weaknesses in this area and have recruited a project manager with some experience of early BOOT projects to assist them with these projects. It may be too early for his influence to be felt.

There was little evidence that Works could provide Council with a sustainable solution that was compatible with the project requirements and they could not be recommended as a suitable partner.

Earth Care Consortium

This consortium is lead by Bob Corker of Wetland Services and Lee Sutherland who have now formed Earth Care New Zealand. The consortium also includes Arrow International (Project Management specialists) and Meritec Ltd (Design specialists). Sustainable NZ, an environmental trust established by Stephen Tindall, has provided initial financial support for the bid and has indicated some support in providing initial funding pending further financial support from "friendly" environmentally conscious organisation and individuals and the community. However, as for the DWK submission, this group did not appreciate the requirement for guarantees to support the performance outputs of the project over the long term. Sustainable NZ were not offering ongoing guarantees.

This group failed to meet the initial Minimum Requirements for the provision of information however were afforded the opportunity to make a presentation to complete the missing information.

This group has demonstrated an active interest in the project and has attempted to assemble a locally based consortium to deliver the project. They along with the other bidders have focussed on a range of solutions to the problem with a heavy focus on community consultation and a clear understanding of the affordability issue.

As a consortium they failed to demonstrate a cohesive approach across the entire team, or the financial strength required for the longer term and it would appear that they need significantly more time to fully prepare for such a project. In this respect it would not surprise to see some of the consortium have a role in the project as subcontractors or advisors to short listed companies.

At this time and for a project the scale of Mangawhai EcoCare this consortium could not be recommended as suitable partner for Council.

Fletcher Construction

This consortium included Fletchers, Sinclair Knight and Mertz (SKM) and Macquarie Bank. They are experienced infrastructure providers with SKM being the designers and Macquarie Bank having significant exposure and understanding of large BOOT projects.

They are a technically competent group who could provide a technical solution.

This consortium demonstrated an extremely risk averse approach with little or no appreciation for understanding and mitigating risk. In addition they failed to demonstrate an understanding of the broader community issues and exhibited a culture and approach that is at odds with Council and would make achieving a commercial result difficult.

Macquarie Bank's involvement in infrastructure projects is focused on very large projects such as toll roads where technical risk and innovation is of less importance, and financing from large banks is a necessity. The involvement of conservative banks in small projects with a broad risk profile such as Mangawhai EcoCare is not appropriate.

Their approach to risk would be highly likely to result in Council paying a significant premium above market rates for the project.

This consortium could not be recommended as a suitable long term partner of Council.