



Strictly confidential

Shayne Cunis
Executive Programme Director, Central Interceptor
Watercare Services Limited
Private Bag 92521
Wellesley Street
Auckland 1141

24 January 2019

Dear Shayne,

As part of the procurement process for the Central Interceptor main programme of works, we have evaluated the financial capability of the Ghella – Abergeldie Harker Joint Venture during each of the REOI, RFP and Preferred Bidder phases.¹

Based on the information we have been provided with during this process to date, and the work we have undertaken as part of this process, we have not identified any material concerns with the financial capability of the Ghella – Abergeldie Harker Joint Venture to undertake the Central Interceptor main programme of works.

However, we note that the contracting and parent companies in the Ghella – Abergeldie Harker Joint Venture have small balance sheets relative to the other RFP respondents. This means that the Ghella – Abergeldie Harker Joint Venture may be less able to cover any financial losses (whether resulting from Central Interceptor or other projects), and hence remain operational following such losses, than the other RFP respondents.

Other comments about the financial capability of the Ghella – Abergeldie Harker Joint Venture have been, and will be, provided to you in our full reports which document our work.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Craig Rice', written in a cursive style.

Craig Rice
Partner
craig.rice@pwc.com
09 355 8641

¹ The scope of our work is set out in more detail in our Work Statements dated 11 September 2017, 20 June 2018 and 30 November 2018

23 January 2019

Partner Reference
M J Weatherall - Auckland

Shayne Cunis
Executive Programme Director,
Central Interceptor Project
Watercare Services Limited

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Sent by Email

Dear Shayne

Board Approval to proceed to Contract with Ghella - Abergeldie Harker

Simpson Grierson has been legal adviser and probity adviser (assisting the Probity Auditor) throughout the procurement process for the Central Interceptor project to date. Michael Weatherall, Partner, was also a member of the tender evaluation team.

We endorse the recommendation to the Watercare Board to proceed to finalise and execute a contract with the Ghella – Abergeldie Harker Joint Venture for the main programme of works.

We note that it is envisaged that prior to the execution of that contract, Simpson Grierson will provide a formal sign-off letter to Watercare, based on the final contract documentation.

Yours sincerely



Michael Weatherall
Partner
SIMPSON GRIERSON

23rd January 2019

Shayne Cunis
Executive Programme Director,
Central Interceptor
Watercare Services Limited

Dear Shayne,

APPOINTMENT OF CONTRACTOR

RLB has provided pricing advice during the procurement of the Contractor for the Central Interceptor. Our involvement can be split into two distinct phases: i) tender review through to appointment of preferred bidder; and ii) negotiation with preferred bidder through to contract appointment. During these two phases, RLB's role in assisting Watercare's Commercial Manager has included the following:

Phase 1 – Tender Review:

- i) Checking the accuracy and completeness of all price submissions;
- ii) Carrying out an analysis of all submissions to identify risks associated with the pricing;
- iii) Reviewing Respondents' technical / commercial alternatives and establishing financial adjustments for perceived disbenefits and additional Watercare where applicable;
- iv) Establishing the Average Base Price;
- v) Providing adjustments to the tender prices to align scope;
- vi) Assisting in the computation of the Final Prices; and
- vii) Assisting in establishing the basis for appointment of preferred bidder.

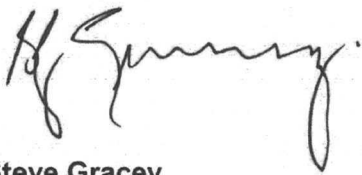
Phase 2 – Preferred Bidder Negotiation:

- viii) Reviewing and tracking adjustments to price following negotiations;
- ix) Advising on areas of risks to be resolved;
- x) Cash flow analysis;
- xi) Advising on implications of pricing adjustments; and
- xii) Attending negotiation meetings;

The process with the preferred bidder Ghella-Abergeldie Harker Joint Venture (G-AH) has been productive, resulting in increased clarity of pricing and reduced risk to the project and Watercare. At this stage, there remain a limited number of pricing items to resolve – however the values of these are considered minor relative to the value of the project. A key issue to be resolved between parties prior to appointment of the Joint Venture will be the management of escalation, however Watercare has the opportunity to revert to the tender requirements, resulting in limited risk to Watercare. It is anticipated that the above will be complete prior to contract signature.

Based on the information we have seen during the process, and the work we have undertaken as part of the process, we support the recommendation to the Watercare Board to execute a contract with the Ghella – Abergeldie Harker Joint Venture for the main programme of works.

Yours sincerely,
RIDER LEVETT BUCKNALL AUCKLAND LTD



Steve Gracey
Managing Director
steve.gracey@nz.rlb.com

From: Roger McRae <roger@mcracsc.com>
Sent: Tuesday, 22 January 2019 6:30 pm
To: SCunis (Shayne)
Cc: NVarcoe (Nigel) 1
Subject: Central Interceptor Procurement - Contract Award Recommendation

Hi Shayne

I have been involved in the oversight of the Central Interceptor procurement process as a member of the Tender Review Panel (TRP). This has included tender review leading up to a recommendation of the preferred bidder, Ghella Abergeldie Harker. Since the approval of the preferred bidder I have continued to be involved in review of aspects of the due diligence process being carried out by the Watercare procurement team on the preferred bidder.

I support the recommendation to the Watercare Board of proceeding with the award of the contract to the Ghella Abergeldie Harker consortium. In supporting the recommendation I would point out that there are a number of areas yet to be finally reviewed by myself and these include financial, technical and commercial aspects forming part of the conformed contract agreement to be executed.

Regards

Roger McRae
McRae Construction Services Ltd

E: roger@mcracsc.com
T: 021 801391

27 November 2018

Raveen Jaduram
Chief Executive Officer
Watercare Services Limited
Private Bag 92521
Wellesley Street
AUCKLAND 1141

Dear Raveen,

INTERIM BOARD REPORT: CENTRAL INTERCEPTOR PROJECT - INDEPENDENT PROBITY REPORT (10 MAY 2018 – 27 NOVEMBER 2018)

Introduction

This report summaries the results of our probity involvement with Watercare Services Limited ("Watercare") between 10 May 2018 and 27 November 2018 for the procurement of the main works contractor for the Central Interceptor Project ("CIP"). The CIP main works includes the construction of a 13km wastewater conveyance tunnel, two link sewers, a number of deep shafts, a pump station and two air treatment facilities.

This report covers our probity work on Watercare's procurement processes from the issuance of the Request for Proposal documents (10 May 2018), up to the presentation to the Board (27 November 2018). Our work has been performed in accordance with our Engagement Letter, dated 25 September 2017, and the Statement of Responsibility, set out below.

Observations

We found practices, processes and controls exercised by Watercare for the period examined to be consistent with the Evaluation Plan, Probity Plan and good practice. Suggestions for improvements and matters raised during our work were satisfactorily addressed by Watercare. Watercare has identified through its own processes, potential probity risks and proactively sought to address them (with our input where required).

In summary, there are no probity issues to bring to your attention in this report from the work we have undertaken to date. The process has been robust, transparent and fair, and Watercare documentation supports the results.

This report is to be read in conjunction with our previous probity reports (dated 15 February 2018 and 10 May 2018), where we did not identify any probity issues from the work previously undertaken.

We set out below the review objectives, scope and key activities performed for this report.

The next phase of our work (from 28 November 2018 onwards) will focus on:

- Finalisation of evaluation processes, including:
 - Communication of the results to successful and unsuccessful Respondents.
 - Debriefs with successful and unsuccessful Respondents.

- Documentation / evidence to underpin analysis and decision-making.
- Preferred respondent(s) interactions and due diligence.
- Involvement of legal and appropriate approvals for final decision.

The above activities align with the approved Procurement Plan and Probity Plan developed by Watercare.

Objectives

The objective of our probity services is to assist Watercare meet the following objectives:

- Watercare's approach to the tender and selection process is aligned to the requirements of the Government Rules of Sourcing (where practicable).
- Governance and management of the tender process is aligned to good practice.
- The process is undertaken in a fair and transparent manner.
- Conflicts of interest have been appropriately identified and managed.
- Confidentiality of information (physical and electronic) is maintained through-out the tender process.
- Documentation is of sufficient quality to support decision making and withstand challenge.

Scope

This report covers our probity work in relation to Phase Five (of Six Phases), in particular, from the issuance of the RFP documentation to the market to the final evaluation report prepared by the Project team for review and approval by the Board.

Out of scope - our work did not cover:

- Decision-making (noting we observed key decision making processes, but we did not make management or procurement decisions on behalf of Watercare or the Tender Team).
- Governance arrangements associated with the Project.
- Recommendations in respect to vendor selection.
- Legal advice.
- Performing or assessing the due diligence undertaken on Suppliers.
- Management of the procurement process.
- Review of the arithmetical accuracy and assumptions within the pricing schedules, moderation summary and SQM spreadsheet.

Key Activities

Key activities we performed included the following:

Ongoing Review and Monitoring:

- Maintained on-going communication with the Central Interceptor Project Team, including formal fortnightly conference calls.
- Reviewed the Probity Plan revisions and associated risk management framework, risk plan and mitigating activities for identified risks. Regularly assessed and monitored the risks identified for relevance.
- Reviewed Conflict of Interest declarations submitted by all key parties during the RFP stage.

Guidance over the Close of the RFP and Opening of Submissions:

- Developed a probity checklist that was completed by Watercare and Deloitte to ensure submissions were securely transferred from Tenderlink to an approved and secure location. We observed the opening of the Tender box at the close of the RFP submission deadline, as well as the distribution of pricing and non-pricing information to the appropriate parties and secure locations.

- Reviewed non-price respondent documentation (prior to release to the Tender Evaluation Team) to ensure any price related information was redacted from the non-price submissions.
- Observed the meeting where final supplier quality premiums were calculated and the opening of the pricing envelope for each Respondent, and undertook an initial review of the pricing schedule.

Attendance at key Evaluation Meetings, Moderation Meetings and Respondent Presentations:

- Provided probity input / guidance on the presentations from the four shortlisted respondents, evaluation meetings held by the Tender Evaluation Team and Tender Review Panel discussions. Reviewed the Evaluation Report and ensured results and decisions were consistent with the evaluation plan and key outcomes from Tender Evaluation Team and Technical Review Panel meetings.
- Observed the technical discussions and concrete pours by two suppliers at which respondents and Watercare staff were present.

Assessment of Security and Confidentiality:

- Assessed and provided feedback on the electronic and physical security controls for Watercare – in both Watercare's premises (Newmarket and Eden Park). Including a detailed review of the electronic and physical security for the CIP Evaluation Room located in Mt Eden.
- Undertook a review of the security processes and controls for Rider Levett Bucknall, the third party organisation responsible for assessing price information supplied by Respondents.

Discussions with Respondents:

- We discussed directly with each respondent (prior to finalisation of preferred respondents and evaluation plans) any probity issues or risks they perceived. We also solicited feedback on the procurement and probity processes and shared these with Watercare. No probity issues were raised by any respondents.

Statement of Responsibility

The procedures that we performed did not constitute an assurance engagement in accordance with New Zealand Standards for Assurance engagements, nor did it represent any form of audit under New Zealand Standards on Auditing, and consequently, no assurance conclusion or audit opinion is provided. The work was performed subject to the following limitations:

- Our assessments are based on observations from our review and sample testing undertaken in the time allocated. Assessments made by our team are matched against our expectations and best practice guidelines. This includes comparison with other similar processes we have assessed. This report offers recommendations for improvements and has taken into account the views of management, with whom these matters have been discussed.
- Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. The procedures were not designed to detect all weaknesses in control procedures as they were not performed continuously throughout the period and the tests performed are on a sample basis.
- Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.
- The matters raised in the deliverable are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud.

Accordingly, management should not rely on our deliverable to identify all weaknesses that may exist in the systems and procedures under examination, or potential instances of non-compliance that may exist.

We have prepared this report solely for the use of Watercare. Our work includes providing constructive suggestions to improve some practices which we identified in the course of our procedures. These procedures are designed to identify control weaknesses but cannot be relied upon to identify all weaknesses. We would be pleased to discuss any items mentioned in this report and to review the corrective action implemented by management.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Aloysius Teh', written in a cursive style.

Aloysius Teh
Partner
for Deloitte Limited
as trustee for the Deloitte Trading Trust

