

22 March 2019

Iain S  
email: [fyi-request-9770-1dc1102e@requests.fyi.org.nz](mailto:fyi-request-9770-1dc1102e@requests.fyi.org.nz)

Dear Iain

**RE: Central Interceptor Project**

Auckland Council has forwarded your request for information dated 6 March 2019 to Watercare Services Limited (Watercare) for response, received by Watercare on 12 March 2019.

That is appropriate as Watercare is the entity undertaking the Central Interceptor Project (the Project).

You have requested “a copy of the final recommendation letter and any minutes or memos to the Board to proceed to the award.” You have also asked for “the final winning tender price as well as the other bidders prices that were submitted”.

**Contract Signing**

On Thursday 14 March 2019, Watercare signed a contract with Ghella-Abergeldie Joint Venture (GAH) for the delivery of the Project. The project includes the Grey Lynn tunnel.

Attached is the media release which notes the cost of the project is \$1.2billion.

**Contract Award**

Procurement for the Main Works Contractor for the Central Interceptor was a multi-stage process, to ensure that we had contractors with a demonstrated track record and ability to deliver a contract of such scale and complexity, and ensure a competitive outcome was achieved that could be demonstrated to provide best value for Auckland.

The initial phase of the procurement was an Expression of Interest process, where firm(s) had to demonstrate that they met the required criteria for the delivery of works. This culminated in four of eight contractors being selected to go through to provide a formal proposal for the works in early March 2018. The decision to take forward four contractors was to ensure we did not expose ourselves to risk of contractor withdrawal for any reason, which may have resulted in delays, additional costs and or a lack of competition in the bidding process.

The Request For Proposal was released in May 2018, and a highly interactive process with each of the bidders was undertaken, until tenders were submitted in September 2018. This was to ensure that the bidders clearly understood the scope of the work (significant geological information was made available). Also any alternatives to the base case design could be agreed prior to the pricing being submitted. By providing this certainty, all tenderers were able to quantify the risk allocation more accurately, which was reflected in the pricing.

All four bidders submitted proposals in September 2018. The reviews of the tender confirmed all bidders were capable of undertaking the project to the required standard. The review of the financial information confirmed that we have received an extremely favourable outcome for Watercare and Auckland, well within the original 2017 Business Case for the project.

The lowest price bid was the one selected and recommended to the Board. This did not include the Grey Lynn Tunnel which was later approved by the Board. The recommendation was endorsed by the project's independent advisors who are leaders in the fields of pricing; financial capability; insurance; engineering and design; and legal.

At all times, the process was bound by strict probity conditions to ensure that the process was above challenge.

The Board of Watercare at its meeting of 29 January 2019 resolved to approve:

- The award of the Central Interceptor main works (including the Grey Lynn tunnel) to GAH and
- That the Chair and Chief Executive review the contract before any extract is signed

Attached is an extract from the minutes of the meeting of 29 January 2019.

Also attached is the management report upon which the Board relied in resolving to award the construction contract to GAH.

Information in the attached minutes and report, including the contract sum, as well as other bidders' prices that were submitted, have been withheld based on the following grounds under the Local Government Official Information and Meetings Act (LGOIMA):

- Making the information available would be likely unreasonably to prejudice the commercial position of the person who supplied the information (i.e. the GAH and the other bidders): section 7(2)(b)(ii); and
- The information that has been withheld is confidential, making it available would be likely to prejudice the supply of similar information or information from the same source (i.e. tender information from future bidders on Watercare projects, or from the present bidders), and it is in the public interest that such information should continue to be supplied: section 7(2)(c)(i).

Watercare is satisfied, under section 7(1) of the LGOIMA that withholding this information is not outweighed by other considerations which make it desirable, in the public interest, to make the information available. This is particularly the case given the total cost of the project has been made public.

You have the right, under section 27 of the LGOIMA, to make a complaint to the Ombudsman about Watercare's decision to withhold this information.

## **Project Cost**

The contract sum is obviously an important component of the project cost and there are other important components.

As stated, the Board was in receipt of a paper from Management for its meeting of 29 January 2019. The paper provides an updated estimate of the total capital cost of the project as being \$1,266.8m which includes the contract then proposed to be executed with GAH which in turn included the cost of the Grey Lynn tunnel.

The cost of each of the individual components of the total capital cost have been withheld for the reasons given above which apply both to GAH and Watercare. To provide that information would be to reveal the pricing strategy, adopted by each of the four bidders.

## **Comment**

The probity of the tendering process was the responsibility of Deloitte ensuring the process was robust, transparent and fair. This ensured that the key elements of the bids, including the contract price, were extremely tightly held.

At no time have the bids by the four bidders been made public nor shared with the bidders. Deloitte who were responsible for the probity of the bid process have continued their involvement in the Project. Very few people in Watercare are aware of the bid prices and those people who are aware have all signed confidentiality agreements. They have all been requested to keep the bid prices to themselves.

The bidders all spent significant sums and invested significant executive time in making their bids for a project of international significance. They will remain in competition for major projects both in New Zealand and overseas. Each of the bidders included world class overseas companies who are specialists in tunneling of major projects. They regularly compete worldwide for projects of the scale of this project, and larger.

What is publicly available is the total cost of the Project at \$1.2b.

The success of the Project will be judged against the Project being completed on or before the end of 2025 at a cost not exceeding \$1.2b.

Yours sincerely



Rob Fisher  
**Company Secretary**

**MEDIA RELEASE**

**UNDER EMBARGO TO 14 MARCH 2019**

## **Aucklanders to enjoy cleaner beaches and waterways with a new super-sized wastewater tunnel**

On Thursday 14 March, Watercare and the Ghella Abergeldie Joint Venture will celebrate signing the contract to construct Watercare's Central Interceptor, a \$1.2 billion wastewater tunnel with associated infrastructure. Construction will start with site works in May and the whole project is expected to be completed by 2025.

This 13-kilometre tunnel is a vital infrastructure project for Auckland and is part of Watercare's wider wastewater strategy to protect and enhance the natural environment.

Watercare's chief executive, Raveen Jaduram says that in older parts of central Auckland, wastewater and stormwater flow into a combined network of pipes. When it rains, stormwater overwhelms these pipes, which are designed to overflow into waterways.

"We want everyone to be able to enjoy clean waterways, beaches and estuaries – that's why we're building the Central Interceptor. It will run underground from Western Springs to the Mangere Wastewater Treatment, collecting wastewater along the way via link sewers and drop shafts."

While the Central Interceptor is being built, Watercare will deliver further projects in the area such as separating the stormwater and wastewater pipes. The largest of these projects is the Grey Lynn wastewater tunnel which is a two-kilometre extension of the Central Interceptor.

**"We are delighted to say that the Grey Lynn wastewater tunnel has been included in our construction contract with Ghella Abergeldie Joint Venture," says Jaduram. "This is an extremely good outcome for Aucklanders because it means a better result for the environment without any extra cost for customers. Together, the Central Interceptor and our western isthmus projects will reduce overflows in the area by at least 80 per cent."**

Watercare has a long history of delivering large-scale and complex projects. Back in 2005, the company carried out the largest rehabilitation project in New Zealand's history by removing the oxidation ponds from the Manukau Harbour and upgrading the Mangere Wastewater Treatment Plant to improve the quality of treated wastewater.

More recently, Watercare built a large wastewater tunnel that runs from Parnell to Orakei, referred to as Project Hobson, using the same tunnelling boring technique that will be employed for the Central Interceptor. This allowed the removal of an old sewer that bisected Hobson Bay and reduced overflows.

Jaduram says the Central Interceptor is Watercare's largest project to date: "Because it is a key part of our region-wide wastewater strategy, it was important to find the best company in the world to construct it. So after a vigorous tender process we chose Ghella Abergeldie Joint Venture with over 150 years' experience working on major tunnelling and wastewater projects across the globe."

New Zealand's Ghella representative, Francesco Saibene, says: "We have been very impressed with Watercare's process. They kept to the intended timing, were clear with requirements and the evaluation process. Plus, the probity measures in place were very robust. One key factor was the extreme dedication and professionalism Watercare has demonstrated on the project. This was an ideal situation for our JV which had an international component that needed those certainties.

"Of utmost importance for us is that Watercare has much the same values and vision as Ghella and Abergeldie, creating an environment where our joint venture can put the same amount of dedication and passion into this project, which will leave a long-lasting legacy to Auckland and its residents."

This project continues to meet its scheduled milestones and stay within budget.

Watercare will fully-fund the Central Interceptor using revenue from its water and wastewater service charges, infrastructure growth charges and borrowings. The project has been included in the Asset Management Plan since at least 2010 and is built into the price path. The [Funding Plan](#) for 2018 to 2028 projects price increases over the period of:

- For water supply, an average of 2.5 per cent per year
- For our wastewater service, an average of 3.3 per cent per year.

This represents an overall average annual price increase for combined water and wastewater of 3 per cent per year for a typical household.

Watercare will not receive any money from Auckland Council towards this project. The council's water quality targeted rate is being used to rehabilitate streams as well as address stormwater network and private septic tank issues.

/Ends

### **Attachments**

- Route map
- Brochure

### **Fast facts**

- Central Interceptor:
  - 13 kilometres long, 4.5 meters in diameter
  - Large capacity: the tunnel can store 200,000 m<sup>3</sup> of wastewater which enables Watercare to control the flow rate to the treatment plant
  - Connects to two link sewers, both 2.4 meters in diameter
  - Connects to 16 drop shafts, up to 80 meters deep
  - Connects to one pump station at the Mangere Wastewater Treatment Plant
  - The TBM is expected to progress at a rate of 15-20 metres per day
- Grey Lynn Tunnel:
  - This will be a two-kilometre-long extension of the Central Interceptor tunnel (15 kilometres total)
  - Included in the construction contract
  - Essentially, 15 per cent more tunnel for the same total project budget.
- Project build from 2019 to 2025.
- Ghella Abergeldie Joint Venture has over 150 years' experience working on major water and wastewater projects and has successfully completed numerous projects of this scale across the world.

For media enquiries and images please contact the **Maxine Clayton** on 022 046 13.

# MINUTES

## 4.4 Contract Award for the Central Interceptor


S Cunis spoke to the report. The following points were discussed.


- **Four letters of endorsement:** The four letters of endorsement were emailed to the Board on Friday, 25 January 2019 (**Appendix A** to these minutes).
- **Financial capability of GAH:** PwC has advised that based on the forecast information seen to date, Ghella has sufficient liquidity to meet forecast commitments over the period of time reviewed. S Cunis confirmed that the GAH joint venture contract for the CI will be on a joint and several basis.
- **Spoil management:** One resource consent is still required, relating to the spoil handling at Ascot Road. We are providing the information required for this consent to GAH, as this is their responsibility.
- **Escalation:** Watercare has made provision for hyper escalation in the risk allowance.
- **Confluence chamber:** We have allowed up to \$10m in the contract for the Confluence Chamber. This is an old asset (60 years old) and we do not know its exact condition, as it is underground.
- **SPV:** M Bridge is meeting with Council CFO, Matthew Walker on Friday, 1 February 2019. We understand that the Ratings Agency has given approval for a SPV. The scope of any SPV will be discussed on Friday.
- **Media interest:** D Hawkins, Chief Corporate Affairs Officer, noted there will be limited media interest in the project until underground drilling starts. However, we have started community engagement already and this will escalate ahead of the May start date.
- **Contract signing:** The Mayor will attend the signing of the formal contract.
- **Legacy:** In response to questioning from the Board, S Cunis noted that the legacy component of the project is still being discussed with GAH.
- **Price:** Management confirmed that the contract price remains within the overall budget and will not be made public. The overall budget figure is the one that will stay in the public arena.
- **Red flags:** S Cunis noted that to date, there are no red-flags. Mike Weatherall of Simpson Grierson will provide an Endorsement Letter before any contract is signed.

The Board **resolved** to approve:

- The award of the Central Interceptor Main Works (including the Grey Lynn Tunnel) to Ghella-Abergeldie Harker Joint Venture, for a sum not exceeding [REDACTED] and
- That the Chair and Chief Executive review the contract before it is executed by the Chief Executive.

## Contract Award for the Central Interceptor

Purpose			Team		
Information	Discussion	Decision	Prepared	Recommended	Submitted
			<b>N Varcoe</b> Commercial Manager	<b>S Cunis</b> Executive Programme Director	<b>R Jaduram</b> Chief Executive
Intellectual capital	People and culture	Community and stakeholder relationships	Financial capital & resources	Natural environment	Assets and Infrastructure



### 1. Recommendation and key points

That the Board approve:

- a) the award of the Central Interceptor Main Works (including the Grey Lynn Tunnel) to Ghella – Abergeldie Harker Joint Venture, for a sum not exceeding [REDACTED]; and
- b) the Chief Executive to execute the contract.

#### Key points

- The November 2018 Board meeting approved the selection of the Ghella – Abergeldie Harker Joint Venture (GAH) as the Preferred Bidder for the delivery of the Central Interceptor programme of works, subject to a negotiation process to resolve key issues.
- That negotiation process has now been completed. All key issues have been resolved to the satisfaction of the Central Interceptor programme team and its independent advisors, as listed in **Appendix A**. Letters of Endorsement from these four independent advisors will be provided to Board members either before, or at, the January 2019 Board meeting.
- We are now ready to execute a contract with the Preferred Bidder.
- The updated estimate of the total capital cost of the project is \$1,266.8M, which includes the contract to be executed with GAH for a sum not exceeding [REDACTED]). This is within the total approved capital expenditure of \$1,268.5M.

### 2. Purpose and context

#### 2.1 The Preferred Bidder process

The November 2018 Board meeting approved the selection of the GAH as the Preferred Bidder for the delivery of the Central Interceptor programme of works.



Since then, the Central Interceptor programme team has undertaken a process of negotiations with GAH, in order to resolve the key issues identified during the Tender evaluation.

This process has now been completed and we now recommend that the contract be awarded to GAH. All key issues have been resolved to the satisfaction of the Central Interceptor programme team, and this has been endorsed by our independent advisors. The process has led to some changes to GAH proposal for undertaking the works, all of which are considered preferable by Watercare, as well as some adjustments to the contract value.

## **2.2 The purpose of this paper**

The purpose of this paper is to:

- Set out the key issues and how they've been resolved
- Provide an update of the expected capital cost of the project
- Recommend that the Board approve the execution of a contract with the Preferred Bidder.

## **3. The details**

Sections 3.1 to 3.3 below describe the key issues addressed during the Preferred Bidder negotiation process, how they have been resolved and the current status of any remaining issues.

Section 3.4 presents the updated estimate of the capital cost for the project.

### **3.1 Financial capability**

Price Waterhouse Cooper (PwC) were engaged to conduct further due diligence on the financial capability of the Preferred Bidder.

The limited procedures being completed cover the following specific areas:

- i) margins on large projects,
- ii) cash flow analysis,
- iii) access to capital
- iv) pipeline of work and capacity.

PwC has had cooperation and exchange of information with both finance teams, utilising PwC Italy to liaise with the team at Ghella head office in Rome. The level of detail of information received has differed between the JV partners. PwC representatives have spoken to both sets of auditors.

At the time of preparing this paper, the review has raised no red flags.

Some key points are:

- Based on recently completed (2013 to 2018) and current contracts, both entities appear to generally budget and manage project costs well. On average across projects, actual or forecast margins are close to budgeted margins.
- Projects and project risks appear to be managed closely.

- Both sets of auditors noted conservatism in accounting for claims which could provide upside to forecasts. No going concern issues were noted.
- Based on forecast information seen to date, both Ghella and Abergeldie appear to have sufficient liquidity to meet forecast commitments over the periods of time reviewed. Further analysis is being done around the working capital cycle within the month, which may need to be monitored and managed, if required.
- Ghella has significant available unutilised banking facilities and holds cash in overseas subsidiaries.
- Abergeldie has indicated that the shareholder has previously provided financial support when required for business acquisitions and other (non-contract related) purposes.
- Ghella’s projects are operated via joint ventures – it is not jointly and severally liable on these, limiting potential liabilities to their share of the JV.

### 3.2 Commercial

The key commercial items addressed are discussed below.

Issue	Status	Resolution
Parent Company Guarantee	✓	Ghella S.P.A and Abergeldie Consolidated Pty Ltd have agreed, on a joint and several basis, to enter into the form of parent guarantee required.
Bonding	✓	ANZ has provided a letter of commitment to provide to GAH the required form of bond to the required level of bonding.
Risk allowance	✓	GAH has provided all the information requested and have satisfied the CI team that they have sufficient risk allowance to complete the project without coming under undue stress in that regard. There has also been an increase to the Watercare risk allowance within the current estimate, while remaining within the approved budget.
Overheads	✓	GAH has provided all the information requested and have satisfied the CI team that they have sufficient overheads to complete the project without coming under undue stress in that regard.
Escalation	✓	Watercare has agreed to cap the escalation exposure of GAH to ensure that GAH does not come under undue stress in completion of the project, should hyper-escalation occur in the current market. A provision has been made in Watercare’s risk allowance.

### 3.3 Delivery

The key delivery items addressed are discussed below.

Issue	Status	Resolution
Management accountabilities	✓	GAH has provided an alternative Project Director that has superior communication and leadership skills, coupled with equal or better experience. A similar change has occurred for the H&S Manager proposed at tender stage.
Adequacy of resources	✓	H&S resources have been enhanced which will increase the level of outcome achieved. Overall, it is considered that GAHs offer has been strengthened in key areas to address Watercare's concerns. GAH will be expected to recognise the need and respond accordingly during construction for ensuring suitable resources are in place at all times.
Spoil management	✓	Watercare remains of the view that the GAH approach to spoil drying carries risk, which GAH has clarified that the risk remains with them.
Subcontracting arrangements	✓	GAH has provided evidence of pre-engagements and confirmed key subcontractor personnel similar. Further GAH is now intending to subcontract the production of precast tunnel lining segments, as opposed to self-performing this task at Ascot Rd.
Confluence chamber and rising main	✓	Due to risk around impacting the existing WWTP operation, the potential for unforeseeable physical conditions, and the confluence chamber condition, the Confluence Chamber item has been changed to a provisional sum.
Sewer connections	✓	GAHs tender pricing contained a number of minor price errors and omissions, which have been adjusted.
Tunnelling methodology	✓	GAH has demonstrated that the TBM and associated features are substantially compliant with the specifications and requirements.
Corrosion protection lining	✓	GAH has indicated that it will engage international expertise from people/organisations who have previously used the proposed methodology.

### 3.4 Capital cost of the project (Nominal dollars)

Capital expenditure of ██████████ for this project has already been approved by the Board. A further ██████████ was approved for the construction of the Grey Lynn Tunnel in November 2018 (to be delivered as part of the programme of works associated with the Central Interceptor). Therefore, the total approved capital expenditure for the CI project is \$1, 268.5M.

The breakdown of the current estimate of the project capital expenditure is below.

- The GAH contract for a sum not exceeding [REDACTED] is highlighted in blue.
- The difference of [REDACTED] (shown in black font) relates to spend by Watercare on Stage 1 and 2 works, coupled with an allowance for Risk and CI Enhancements.

Item	Total \$m Nom
Stage 1 <ul style="list-style-type: none"> <li>• Planning, consenting, property, design and procurement</li> </ul>	[REDACTED]
Stage 2 <ul style="list-style-type: none"> <li>• Early Works</li> <li>• Legal &amp; Property</li> <li>• Insurance</li> <li>• Programme Management</li> <li>• Stakeholder &amp; Communications Management</li> <li>• Commissioning &amp; Handover</li> </ul>	[REDACTED]
Stage 2 <ul style="list-style-type: none"> <li>• Construction (includes Grey Lynn Tunnel)</li> <li>• Provisional Sums within Contract</li> </ul>	[REDACTED]
Risk Allowance <ul style="list-style-type: none"> <li>• Unforeseen Physical Conditions</li> <li>• Hyper escalation</li> </ul>	[REDACTED]
CI Enhancements <ul style="list-style-type: none"> <li>• Western Water Quality Improvement Programme opportunities</li> <li>• Digital Innovations</li> <li>• Customer experience</li> </ul>	[REDACTED]
<b>Total Capital Cost</b>	<b>1266.8</b>
<b>Total Capital Approved</b>	<b>1268.5</b>



## **Appendix A – Independent Advisors Letters of Endorsement**

***These letters will be provided to the Board either before, or at, the board meeting.***

- Roger McRae – McRae Construction Services Ltd
- Michael Weatherall – Simpson Grierson
- Craig Rice – Price Waterhouse Coopers
- Ed Cook – Rider Levett Bucknall