


**CABINET - SUBJECTS FOR CONSIDERATION, 05 FEBRUARY 2007 11:00 AM**

Not relevant



**1 New Initiatives/Policy Matters**


Not relevant



105 MFC/CS/07/002

**Anangu Pitjantjatjara Yankunytjatjara Central Power  
Station - Construction of Electrical Distribution  
Network (Jay Weatherill)  
APPROVED**

Not relevant



105  
**CABINET COVER SHEET**

1. **TITLE:** Anangu Pitjantjatjara Yankunytjatjara Central Power Station - Construction of electrical distribution network
2. **MINISTER:** Hon Jay Weatherill MP  
**MINISTER FOR ABORIGINAL AFFAIRS AND RECONCILIATION**
3. **PURPOSE:** To seek cabinet approval to:

  - extend ETSA's construction contract by \$7,397,500 (GST inclusive) resulting in a total construction contract with ETSA to the value of \$13,108,981 (GST inclusive), and
  - increase contract contingency by \$737,000 (GST inclusive) resulting in the maximum authorised expenditure of \$14,417,981 (GST inclusive) for ETSA's construction contract.
4. **IDENTIFY THE RELEVANT GOVERNMENT POLICY AND/OR TARGET IN SOUTH AUSTRALIA'S STRATEGIC PLAN:** Build and maintain infrastructure to develop and support sustainable communities in regions. (T5.11)
5. **RESOURCES REQUIRED FOR IMPLEMENTATION:** Current expenditure approval \$13.297m (GST exclusive) being \$6.65m from State sources and \$6.647m from Australian Government.

The 2006/07 State Budget included additional expenditure of \$7.7m (GST exclusive) to construct the final two sections of the distribution network.

Total approved expenditure \$20,997,000 (GST exclusive)

**The Department of Treasury and Finance agrees with the basis of the assessment of the required resources contained in the submission.**
6. **COMMUNITY AND ENVIRONMENTAL IMPACT:** The continued rollout of the distribution network will ensure a safe and reliable electricity supply is provided to a greater number of communities and consumers across the APY Lands.

7. **RISKS:** Delays in extending the ETSA construction contract is likely to result in cost escalation.
8. **CONSULTATION:** Over the course of the project the following agencies have been consulted:
- Department for Transport, Energy and Infrastructure
  - Department of the Premier and Cabinet
  - Department of Treasury and Finance
  - Office of the Technical Regulator
  - Office for Aboriginal Housing
  - Crown Solicitor's Office
- External agencies consulted include:
- Australian Government (FaCSIA)
  - Anangu Pitjantjatjara Yankunytjatjara
  - ETSA Utilities
9. **COMMUNICATION STRATEGY:** Regular communications with key stakeholders continue throughout the delivery of the project.
10. **URGENCY:** Price validity period to extend the existing construction contract with ETSA Utilities expires on 9 February 2007.
11. **RECOMMENDATIONS:** It is recommended that Cabinet:
- 4.1 Approve the extension of ETSA's construction contract by \$7,397,500 (GST inclusive) resulting in a total construction contract with ETSA to the value of \$13,108,981 (GST inclusive), and
- 4.2 Approve the increase in contract contingency by \$737,000 (GST inclusive) resulting in the maximum authorised expenditure of \$14,417,981 (GST inclusive) for ETSA's construction contract.

**I declare that I have no actual or potential conflict of interest in relation to the proposals contained in this submission.**



**Hon Paul Caica MP**  
A/Minister for Aboriginal Affairs and Reconciliation

25 / 0 / 2007

**Queries to be referred to:**

Lead Author: Joslene Mazel, Executive Director

Department: Aboriginal Affairs and Reconciliation Division of the Department of the Premier and Cabinet

Telephone: 8226 2243

TO: THE PREMIER FOR CABINET

RE: ANANGU PITJANTJATJARA YANKUNYTJATJARA CENTRAL POWER STATION - CONSTRUCTION OF ELECTRICAL DISTRIBUTION NETWORK

1. PROPOSAL

To seek Cabinet approval to:

- 1.1 extend ETSA's construction contract by \$7,397,500 (GST inclusive) resulting in a total construction contract with ETSA to the value of \$13,108,981 (GST inclusive), and
- 1.2 increase contract contingency by \$737,000 (GST inclusive) resulting in the maximum authorised expenditure of \$14,417,981 (GST inclusive) for ETSA's construction contract.

2. BACKGROUND

- 2.1 By agreement, the Aboriginal and Torres Strait Islander Commission (now incorporated within the Department of Families, Community Services and Indigenous Affairs) and the Government of South Australia are jointly funding the construction of a Central Power Station near Umuwa and the installation of an overhead high voltage distribution system to connect the communities of Amata, Ernabella, Kenmore Park, Umuwa, Fregon, Mimili and Indulkana.
- 2.2 Cabinet approved \$11.9m for this initiative in 2001, of which \$6.65m was funded by the State. Over the course of the project, funds available increased to \$13.297m as a result of additional funding being made available by the Australian Government (\$6.647m in total). In addition, the 2006/07 State Budget included additional expenditure of \$7.7m to construct the final two sections of the distribution network ie: Mimili to Indulkana and Umuwa to Amata.
- 2.3 The Department for Transport, Energy and Infrastructure (DTEI - Building Management) is the Project Risk Manager, whilst specialist sub consultant, GHD Pty Ltd, has been engaged to provide consultancy services on the project.
- 2.4 Delivery of works has been staged and a summary is provided as follows:

*Stage 1* - The construction of a 200 kilowatt Solar Farm comprising ten solar dishes, each with a diameter of 14 metres, and utilising state of the art technologies was completed by Solar Systems Pty Ltd in August 2003. Full utilization of the Solar Farm will be achieved when it is connected to the Central Power Station at Umuwa in early 2007 and the distribution network is extended to meet the designed loads.

This stage also included the construction of duplex accommodation at Umuwa for contractors working on the project and an early civil works package to prepare the power station site (completed 2003).

*Stage 2* - The construction of the Central Power Station building at Umuwa was completed in December 2004.

Also included was the provision and installation of three containerised generator sets, bulk fuel tanks and associated control systems. The power station has a capacity of 3 MW and was commissioned on 28 September 2006. The Ernabella distribution network incorporating Umuwa, Kenmore Park and a number of homelands was successfully switched over to the Central Power Station on 14 October 2006.

*Stage 3* - The construction of high voltage power lines (distribution network) connecting the communities of Amata, Fregon, Mimili and Indulkana to the Central Power Station, a distance of approximately 250kms.

Tenders for Stage 3 closed in December 2005 and following a comprehensive appraisal process ETSA Utilities were recommended by DTEI as offering a best value for money bid of \$12,018,635 for the four sections of the distribution network. With funds available at the time of \$6,705,411, a contract was let to ETSA to construct two sections of the distribution network at a value of \$5,192,256.

Construction commenced August 2006 with completion scheduled for April 2007.

### **3. DISCUSSION**

- 3.1 In March 2006 DTEI advised that the order of cost to construct the final two sections of the distribution network ie: Mimili to Indulkana (60kms) and Amata to Umuwa (90kms) was \$7.7m. ETSA advised that they would hold their price until the end of June 2006, after which demobilization and escalation costs could be incurred.
- 3.2 During early June 2006, a submission was prepared seeking additional funding through the State Budget process. The 2006/07 budget included additional expenditure of \$7.7m to complete the rollout of the distribution network.
- 3.3 As ETSA submitted their price in December 2005 a revised quotation was sought for the final two sections. The price submitted was \$1.834m in excess of their December 2005 price, an increase of 27%. ETSA provided a detailed breakdown of price increases by project element together with reasons for the differences between their initial tender amount and their current quotation and mitigation strategies.
- 3.4 DTEI has verified that over the past 12 months tendered costs for remote area projects have increased by 15-25% compared with 6-7% for metropolitan projects. The main reasons for the increases relate to the buoyant construction market, limited number of suitable builders who are able to carry out remote area works, increase in materials and expansion of resource sector work. Aluminium and steel price increases have a

significant impact on powerline projects. Prices have risen on average by in excess of 40% over the past year.

- 3.5 DTEI forecast that tender price increases for future remote area work will continue to be significantly higher than metropolitan work.
- 3.6 It should be acknowledged that the State election and consequent lateness in finalising the 2006/07 budget process, resulted in delays in being able to confirm the availability of additional funding and the ability to accept the ETSA price by the end of June 2006 price validity period. It would also be reasonable to state that the Project Risk Manager, DTEI, would not have envisaged an ETSA price rise by \$1.834m, in such a short period of time.
- 3.7 Inclusive of extending the construction contract with ETSA, the professional service contract with consultants GHD, additional management costs for DTEI and project contingency, the project shortfall is \$2.163m.
- 3.8 As the Central Power Station is a joint State and Australian Government funded project, negotiations are continuing with the Australian Government to assist with the funding shortfall. Funding to complete the project will be a further cost pressure should the Australian Government not meet the shortfall.
- 3.9 DTEI has examined a number of options to progress the project. In summary they include:
1. Accept ETSA's quotation, obtain additional funding required and extend the ETSA construction contract accordingly. As additional funding is not available, this option is not possible.
  2. Not accept ETSA's quotation and tender the full scope of works to the market with available funding. The risk with this option is that a tender may produce an even higher price than ETSA's quotation and once having tendered the works, it will then not be possible to revert back to ETSA's price.
  3. Extend ETSA's contract to the amount of funding available, negotiate the scope of works that can be undertaken for the available funding. Proceeding with this option will result in 30-40 kms of powerlines not being constructed. This option minimizes the impact of cost escalation but further negotiations are required with the Australian Government to obtain the additional funding to complete construction.

Option 3 is recommended.

- 3.10 The various impacts of the submission are documented below:

**3.10.1 Economic, financial and budgetary implications**

Financial implications are NIL, as the \$7.7m approved in the 2006/07 budget is already included in Department of the Premier and Cabinet, Aboriginal Affairs and Reconciliation Division budget.

DTEI have recommended the existing construction contract with ETSA Utilities be extended by \$7,397,500 (GST inclusive) bringing the total contract value to \$13,108,981 (GST inclusive). DTEI has assessed that approximately 10% of the contract value (\$737,000) be allocated against construction risk, bringing total contingency to \$1,309,000 (GST inclusive).

As the ETSA Utilities construction contract will exceed \$11m (GST Inclusive) and in accordance with Treasurer's Instruction 8, section 8.11.1 *Financial Delegation to Approve Contracts including Purchases*, approval of Cabinet is required.

In association with extending the construction contract with ETSA, the existing contract with specialist sub consultant GHD Pty Ltd will be extended and additional costs will be incurred associated with project management, disbursements and other sundry items.

The following table provides a breakdown of the original approved expenditure and the 2006/07 expenditure approval for the project:

|  | APPROVED EXPENDITURE | ADDITIONAL EXPENDITURE               | TOTAL EXPENDITURE   | EXPENDITURE (GST inclusive) |
|--|----------------------|--------------------------------------|---------------------|-----------------------------|
| Early Civil works                      | \$183,873            | \$0                                  | \$183,873           | \$202,260                   |
| Main Building                          | \$1,618,496          | \$0                                  | \$1,618,496         | \$1,780,347                 |
| Generating Equipment                   | \$3,118,490          | \$0                                  | \$3,118,490         | \$3,430,339                 |
| Early Connection Ernabella             | \$56,000             | \$0                                  | \$56,000            | \$61,600                    |
| Ernabella Distribution Line            | \$227,000            | \$0                                  | \$227,000           | \$249,700                   |
| Accommodation                          | \$328,000            | \$0                                  | \$328,000           | \$360,800                   |
| Equipping Bore                         | \$59,000             | \$0                                  | \$59,000            | \$64,900                    |
| Power Distribution - ETSA              | \$5,192,256          | \$6,725,000<br>\$7,397,500 (GST inc) | \$11,917,256        | \$13,108,981                |
| Power Distribution Contingency         | \$520,000            | \$670,000<br>\$737,000 (GST inc)     | \$1,190,000         | \$1,309,000                 |
| GHD Fees & Disbursements & Contingency | \$1,137,273          | \$170,000<br>\$187,000 (GST inc)     | \$1,307,273         | \$1,438,000                 |
| DTEI Fees & Project Costs              | \$489,612            | \$90,000<br>\$99,000 (GST inc)       | \$579,612           | \$637,573                   |
| DPC-AARD Project Costs                 | \$367,000            | \$45,000<br>\$49,500 (GST inc)       | \$412,000           | \$453,200                   |
| <b>TOTALS</b>                          | <b>\$13,297,000*</b> | <b>\$7,700,000</b>                   | <b>\$20,997,000</b> | <b>\$23,096,700</b>         |

\* State Government \$6.65m and Australian Government \$6.647m.

- a) **Staffing implications.**  
Nil.

**3.10.2 South Australia's strategic plan**

This project contributes to meeting the following target (T5.11):

Build and maintain infrastructure to develop and support sustainable communities in regions.

**3.10.3 Information communication technology requirements**

N/A

**3.10.4 Impact on the community and the environment**

**3.10.4.1 Impact on families and society**

The continued rollout of the distribution network will ensure a safe and reliable electricity supply is provided to a greater number of communities and consumers across the APY Lands.

Operational and fuel cost savings will be achieved through generator efficiencies and use of latest technologies at the Central Power Station.

**3.10.4.2 Regional impact**

When complete, reliable and more efficient power will be provided to approximately 1300 people located in the far north west of the State. A Central Power Station will feed a 250 km distribution network.

**3.10.4.3 Impact on business**

Marginal improvement due to the reliability of supply.

**3.10.4.4 Environmental impact**

Integration of the Solar Farm and the diesel powered Central Power station produces cleaner and more efficient power.

**3.11 Risk Management Strategy**

At project inception in 2001 a detailed risk management plan was established. In summary the current risks for the remainder of the project are as follows:

| <b>Risk</b>       | <b>Likely Consequences</b>             | <b>Probability</b> | <b>Actions</b>                                    |
|-------------------|--|--------------------|---|
| Funding shortfall | Construction 30-40kms short            | High               | Negotiations progressing with Aust. Gov. to fund. |
| Cost escalation   | Reduction in communities connected and | Medium             | Extend existing construction contract with        |

|  |   |        |  |
|--|---|--------|--|
|  | cost to complete continues to increase resulting in greater funding shortfall |        | ETSA by 9 February 2007.                                       |
| Coverage reduced                                     | Public criticism  | Medium | Ensure additional funding obtained to complete original scope. |
| Delays in obtaining work area clearances through APY | Construction work delayed and costs escalate                                  | Low    | Streamlined approval process being negotiated with APY.        |

### 3.12 Consultation

Construction is well advanced and a broad cross section of agencies and organisations are consulted or communicated with on a regular basis.

### 3.13 Implementation Plan

The Department for Transport, Energy and Infrastructure (DTEI - Building Management) is the Project Risk Manager.

### 3.14 Communication Strategy

Regular communications with key stakeholders continue throughout the delivery of the project.

### 3.15 Executive Council

Approval by Her Excellency the Governor in Executive Council is not required.

4. RECOMMENDATIONS:

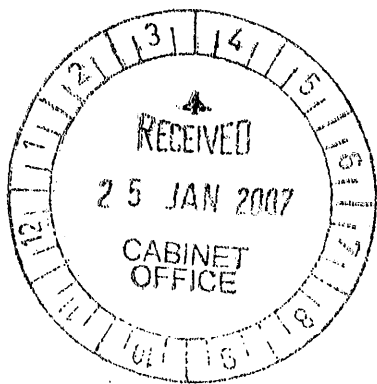
It is recommended that Cabinet:

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- 4.2 Approve the increase in contract contingency by \$737,000 (GST inclusive) resulting in the maximum authorised expenditure of \$14,417,981 (GST inclusive) for ETSA's construction contract.

Hon Paul Caica MP  
A/MINISTER FOR ABORIGINAL AFFAIRS AND RECONCILIATION

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Att: DTF costing comment



*In Cabinet*

- 5 FEB 2007

