


CABINET - SUBJECTS FOR CONSIDERATION, 25 JUNE 2007 11:00 AM

1 **New Initiatives/Policy Matters**

101 MFC/CS/07/022 Anangu Pitjantjatjara Yankunytjatjara Central Power Station - Construction of Electrical Distribution Network (Jay Weatherill)
WITHDRAWN MOVED TO SUB-COMMITTEE

Not relevant



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 \$2,129,930 (GST inclusive) resulting in a total construction contract with **ETSA** to the value of \$15,238,912 (GST inclusive), and
 - increase contract contingency by up to \$1,521,300 (GST inclusive) resulting in the maximum authorised expenditure of \$16,760,212 (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. **ICT COMPONENT** Does the submission have a material ICT Component?
- Yes No
- The Office of the Chief Information Officer has not assessed this submission for ICT content.**
6. **RESOURCES REQUIRED FOR IMPLEMENTATION:** Current expenditure approval \$20.997m (GST exclusive) being \$14.35m from State sources and \$6.647m from Australian Government.
- The 2007/08 State Budget included additional expenditure of \$2.675m (GST exclusive) to construct the final two sections of the distribution network.
- Total approved expenditure \$23.672m (GST exclusive)
- There will be no budget impact – as funding for the contract has already been approved.
- Approval to extend the construction contract

with **ETSA Utilities** is being sought.

The Department for Treasury and Finance agrees with the basis of the costs contained within the submission.

7. 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.

8. RISKS:

Any delay in extending the **ETSA** construction contract is likely to result in cost escalation.

9. 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

External agencies consulted include:

- Australian Government (FaCSIA)
- Anangu Pitjantjatjara Yankunytjatjara
- **ETSA Utilities**

10. COMMUNICATION STRATEGY:

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

11. URGENCY:

Price validity period to extend the existing construction contract with **ETSA Utilities** expires on 30 June 2007.

12. RECOMMENDATIONS:

It is recommended that Cabinet:

- 4.1 Approve the extension of ETSA's construction contract by \$2,129,930 (GST inclusive) resulting in a total construction contract with ETSA to the value of \$15,238,912 (GST inclusive), and
- 4.2 Approve the increase in contract contingency up to \$1,521,300 (GST inclusive) resulting in the maximum authorised expenditure of \$16,760,212 (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 Galca MP

MINISTER FOR ABORIGINAL AFFAIRS AND RECONCILIATION

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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 \$2,129,930 (GST inclusive) resulting in a total construction contract with ETSA to the value of \$15,238,912 (GST inclusive), and
- 1.2 increase contract contingency up to \$1,521,300 (GST inclusive) resulting in the maximum authorised expenditure of \$16,760,212 (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 Commonwealth Government (\$6.647m in total). The 2006/07 State Budget included additional expenditure of \$7.7m and in the 2007/08 budget a further \$2.675m was made available to complete the construction of the final section ie: 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. GHD's role is to administer the construction contracts and oversee the technical aspects of the project. Their engagement has been through progressive extensions and will be ongoing in conjunction with the progressive extension of the ETSA construction contract.
- 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 when 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 the 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 the 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 and both Fregon and Mimili have been connected and are on line as from 25 May 2007.

3. DISCUSSION

- 3.1 Cabinet was advised on the 5 February 2007 of a funding shortfall of \$2.163m. The quotation remained valid until 9 February 2007. As the Central Power Station project is a joint State and Australian Government funded project, extensive negotiations took place seeking the support of the Commonwealth Government to fund the shortfall. As the Commonwealth Government funding negotiations were still in progress, the ETSA contract price could not be accepted at that time to complete the works. With the expiration of the validity period of this quotation, a revised quotation was obtained from ETSA Utilities.
- 3.2 The revised cost to complete the rollout of the distribution network is \$2.675m. This revised cost includes the extension of the ETSA contract, professional fees, contingency and additional costs incurred due to delays in switching over Fregon and Mimili to the new distribution network. The revised quotation by ETSA is based on the contract with ETSA being extended prior to 30 June 2007.
- 3.3 DTEI forecast that tender price increases for future remote area work will continue to be significantly higher than metropolitan work.
- 3.4 Inclusive of extending the construction contract with ETSA, the professional service contract with consultants GHD, additional

management costs for DTEI and DPC-AARD and project contingency, the project shortfall is \$2.675m.

3.5 The various impacts of the submission are documented below:

3.5.1 Economic, financial and budgetary implications

Financial implications are NIL, as the \$2.675m approved in the 2007/08 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 \$2,129,930 (GST inclusive) bringing the total contract value to \$15,238,912 (GST inclusive). DTEI has assessed that approximately 10% of the contract value (\$193,000 GST exc) be allocated against construction risk, bringing total contingency to \$1,521,300 (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 2007/08 expenditure approval for the project (GST exclusive):

	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	\$11,917,256	\$1,936,300	\$13,853,556	\$15,238,911
Power Distribution Contingency - ETSA	\$1,190,000	\$193,000	\$1,383,000	\$1,521,300
Professional Fees, DTEI Costs, Disbursements etc	\$1,886,885	\$0	\$1,886,885	\$2,075,573
DPC-AARD Costs/Principal's Contingency	\$412,000	\$545,700	\$957,700	\$1,053,470
TOTALS	\$20,997,000	\$2,675,000		\$26,039,200

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

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

3.5.2 **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.

3.5.3 **Information communication technology requirements**

N/A

3.5.4 **Impact on the community and the environment**

3.5.4.1 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.

3.5.4.2 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.

3.5.4.3 Impact on business

Marginal improvement due to the reliability of supply.

3.5.4.4 Environmental impact

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

3.5.5 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:

Risk	Likely Consequences	Probability	Actions
Cost escalation	Reduction in communities connected and cost to complete continues to increase resulting in greater funding shortfall	Medium	Extend existing construction contract with ETSA by 30 June 2007.
Coverage reduced	Public criticism	Medium	Ensure additional funding obtained to complete original scope.
Delays in obtaining work area clearances and approvals through APY	Construction work delayed and costs escalate	Medium	Streamlined approval process being negotiated with APY.

3.5.6 Consultation

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

It should be noted that the Commonwealth funded the Central Power station (Stage 2) and will contribute to connecting homelands and therefore are not prepared to put additional funds into the transmission line.

3.5.7 Implementation Plan

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

3.5.8 Communication Strategy

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

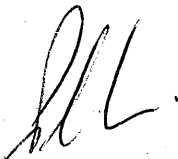
3.5.9 Executive Council

N/A

4. RECOMMENDATIONS:

It is recommended that Cabinet:

- 4.1 Approve the extension of the ETSA's construction contract by \$2,129,930 (GST inclusive) resulting in a total construction contract with ETSA to the value of \$15,238,912 (GST inclusive), and
- 4.2 Approve the increase in contract contingency up to \$1,521,300 (GST inclusive) resulting in the maximum authorised expenditure of \$16,760,212 (GST inclusive) for ETSA's construction contract.



Hon Paul Caica

A/MINISTER FOR ABORIGINAL AFFAIRS AND RECONCILIATION

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