

**Senate Standing Committee on Environment and Communications
Legislation Committee**

Answers to questions on notice
Environment and Energy portfolio

Question No: 157
Hearing: Budget Estimates
Outcome: Outcome 3
Program: Australian Antarctic Division (AAD)
Topic: Benchmarking range of prices
Hansard Page: 18
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Question Type: Spoken

Senator Xenophon asked:

Senator XENOPHON: Right. Because of time constraints—in March, on page 36 of the Auditor-General's report it says the RFP ship price was \$196 million. The RFT price—the request for tender—was \$458 million, a 133 per cent increase. The annual operating costs excluding fuel were \$12.7 million on the RFP. It went to \$32 million on the RFT—a 189 per cent increase. And so on, and so on—including crew numbers. Is that something that concerns you? Can you explain how there could be such a huge difference between the RFP and the RFT prices?

Dr Gales: In some ways it might be most helpful if we, on notice, provide you with the benchmarking range and where this sat within the benchmarking range, because in fact—while absolutely at the very upper end—the build came within the benchmarking range that we had and the operation and maintenance of the vessel was for a much larger vessel.

Answer:

A number of factors help explain the price difference between the solution proposed by DMS Maritime Pty Ltd in their RFP submission in 2013, and the solution proposed in their RFT submission in 2015.

The RFP was issued on the basis that the key capability parameters (icebreaking, cargo capacity, fuel capacity) had not been agreed with Government. A set of notional 'common point' key capability requirements were incorporated into the RFP, these being 1.65 metres icebreaking capability; 1000 tonnes dry cargo storage; and 1.3 million litres bulk fuel storage; and accommodation for 80 expeditioners.

Respondents were to provide indicative prices in response, together with an indication of the costs to move to a range of alternative key capability requirements (detailed in a capability matrix). The RFP capability matrix would inform the basis of a submission to Government based on the preferred vessel capability and costs (calculated using the indicative RFP pricing as the basis).

In response to the RFP, the six respondents provided indicative design and build prices which ranged from \$193.6 million to \$354.8 million for the 'common point' capability. As noted in the ANAO Report, DMS Maritime submitted an indicative price of \$196.9 million.

The six respondents also provided indicative average annual operate and maintain costs which ranged from \$18.03 million to \$26.21 million. As noted in the ANAO Report, DMS Maritime submitted an indicative cost of \$18.03 million.

The concept design proposed by DMS was a capable solution but the evaluation team, supported by external consultant subject matter expertise, considered there was a severe risk

to their indicative prices, as the concept design would develop significantly in any subsequent process as the full implications of the specifications were translated into a more detailed design.

A range of information was sought through the RFP process. Overall, high quality information was provided on the vessel designs and indicative build prices. However, details regarding 'project management' was not as complete and proposals did not necessarily fully reflect the risk transfer implicit within the contract principles. As indicated in the ANAO Report, given that the proposed vessels were only at the early concept stage, the annual operating cost estimates provided by respondents were incomplete and meaningful life-cycle costs could not be robustly calculated. It was not considered reasonable to further pursue this very detailed level of information through the non-binding RFP process as the respondents had already made a significant investment in preparing their submissions.

Therefore, the Department's cost estimates derived from the RFP process included a contingency to reflect the highly probable scenario that the underlying costs would increase during the RFT phase as the vessel specifications were finalised and the implications better understood by the designer and reflected in the vessel's design. The inclusion of a contingency amount reflected this price risk. It is therefore misleading to make a direct comparison between the RFP pricing and the RFT price.

In 2014, Government approved that the Department proceed with a prequalified Request for Tender process based on a design, build, operate and maintain procurement model, to procure a new resupply icebreaker with key capability requirements being: 1.65 metre icebreaking, 1200 tonnes dry cargo storage, 1.9 million litres bulk fuel storage, and accommodation for 116 expeditioners (noting that the RFP had sought indicative prices against the notional common point of 1.65 metres icebreaking capability; 1000 tonnes dry cargo storage; and 1.3 million litres bulk fuel storage; and accommodation for 80 expeditioners).

The RFT provided a full specification and operational profile for both the design & build and operation & maintenance phases, including the proposed risk allocation between the parties. The RFT also sought the contractor to perform some activities which the Department currently procures or provides itself to support the *Aurora Australis*. An increase in costs was seen against certain cost categories as a result.

In March 2015, DMS Maritime Pty Ltd tendered a price of \$454.3m for the design and build of the new Research Supply Icebreaker, comprised of a fixed-price amount of AUD\$74.6 million, plus a fixed-price amount of €261.3 million. The tendered a price to operate and maintain the research supply icebreaker was an average price of AUD\$29.3 million per annum, exclusive of fuel and insurances.

The tendered price of \$454.3m to design and build the new Research Supply Icebreaker was:

- \$154.7 million lower than the initial cost estimate benchmark of \$609m (this being \$459.5 million plus AUD\$149.5 million contingency), which the Department had established in 2012 from the initial BMT Technology & Design cost-modelling.
- \$12.9 million lower than the Department's 2014 cost estimate benchmark of \$467.2 million, provided to Government in 2014 prior to the request for tender being issued.
- within the independent cost estimate benchmark range of \$304.2 million to AUD\$454.5 million established by KPMG for the Department.

The contract price to design and build the new research supply icebreaker comprises of the fixed-price of \$59.9 million plus the fixed amount of €276.43 million. At the time of contract signature this equated to \$488 million, but actual milestone payments in euros will be subject to foreign currency exchange rate variation.

It should be noted that reporting on actual total amounts in Australian dollars only can be misleading due to foreign currency exchange rate variations across the period of time since 2012. For example, the estimated cost of \$488 million in April 2016, as stated in the ANAO Report, would equate to approximately \$447.5 million on the date the ANAO Report was issued in March 2017.

The contracted price to operate and maintain the research supply icebreaker is an average of AUD\$26.7 million per annum, exclusive of fuel and insurances. This is \$2.6 million per annum lower than the tendered price and is also \$0.8 million per annum lower than the KPMG benchmark.